UK sales managers’ perceptions of the antecedents and moderating factors influencing the outsourcing of sales activities.

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Declaration

Whilst registered as a candidate for the above degree, I have not been registered for any other research award. The results and conclusions embodied in this thesis are the work of the named candidate and have not been submitted for any other academic award.

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Abstract

Theory development in the field of sales is relatively limited compared to other disciplines, particularly since sales managers have lower rates of participation in academic studies than other professions. By exploring in depth the perceptions of sales managers about their resourcing choices, this study brings rich linguistic data to bear on the "make-or-buy" question in sales, which could be further tested by quantitative means. It is the first comprehensive approach to the topic in the sales function, exploring constructs across three theoretical schools – transaction cost economics, the resource-based view and real options theory.

This study explores how UK sales managers perceive that they make their sales resourcing decisions, focusing particularly on the resourcing option of using third parties such as "contract sales organisations" rather than recruiting employees. Given the lack of research about the sales function to date, and in particular the lack of research on outsourcing in the sales function, the resulting model of the make-or-buy decision in the sales function is a significant contribution to an emerging body of literature, discerning antecedents from two levels of moderating factors, and accommodating exceptions as well as probable scenarios.

This study posits that, depending on context, cost, access to skills or speed to respond to the market are important antecedents of resource changes and resourcing decisions in the sales function; desire to control on the basis of reputational risk is a primary moderating factor, and ability to manage third parties together with availability of suitable suppliers are secondary moderating factors. The primary research in this study involved in-depth telephone interviews with an under-researched managerial elite - senior sales managers and sales directors. It adds to the recent evidence that telephone interviewing can be successful in gathering large quantities of data from respondents without loss of rapport or emotional emphasis.

Contents List	Page No

Contents List	**Page No**

Contents List	Page No

Contents List	Page No

Chapter 1: Introduction

This section describes the context of this research and the key issues that will be explored. It provides a justification for the research, on the basis of the current gaps in the literature. It also provides a guide to the contents of the thesis.

1.1 Background to this research - the importance of the sales function

Despite the importance to shareholders of companies being able to grow without resorting to acquisitions (Favaro, Meer & Sharma, 2012), examination of the sales function which usually bears the targets to achieve volume growth forms a relatively small and declining body of literature (Avlontis & Panagopoulos, 2010). Richards, Moncrief and Marshall (2010) noted 388 scholarly articles on the topic of sales and sales management from 19 journals (of which all bar three were in based in the USA) between 2003 and 2007. They observed that the field is opening up outside of the USA, but only eight UK business schools were attributed with authorships. This is surprising, given that more people are employed in sales than in marketing (Piercy, 2006) and companies in business-to-business sectors spend heavily on their sales function (Avlonitis & Panagopoulos, 2010).

Sales revenue growth is a measure of a company's ability to grow organically, i.e. from its own resources and capabilities, including the capability to leverage external resources (Kazanjian, Hess & Drazin, 2006). Meer (2005) found that top quartile performance in a sector was associated with above average organic growth, but organic growth is a very tough objective to realise in developed economies, where saturated markets, intense competition and economic uncertainty are observed (Hitt, Ireland & Tuggle, 2006). If organic growth matters, then the contribution of the sales function is critical (Avlonitis & Panagopoulos, 2010). Colletti and Chonko (1997) state, on the basis of a large survey and three case studies, that a high performance sales organisation demonstrates a number of attributes, including revenue growth greater than industry norms and success with new products and customers. Without these factors, the sales function would become obsolete.

Nevertheless, there has been relatively little literature since to explain how a modern sales function should be designed. In particular, the role of outsourcing in the sales function is overlooked, with only a handful of studies involving primary research since 1985 which are specifically about sales outsourcing (Anderson, 1985; Wilson & Zhang, 2002; Krafft, Albers & Lal, 2004; Rogers, 2009). In a working paper, the authors most associated with consideration of the outsourcing of sales commented that it was relatively rare in practice compared to other functions, despite evidence of its potential value (Anderson, Dalsace & Ross, 2003).

1.2.1 The research problem

Economic crises can create an environment in which new resourcing models evolve. The poor economic conditions of 2008-2009 in the UK resulted in widespread redundancies and/or shifts to part-time and self-employment (ONS, 2010/11). Hammer and Champy's (1993) "Reengineering the corporation: a manifesto for business revolution", which was published just after the previous recession (of 1991/92), was associated with an increasing trend in the 1990s for large companies to outsource activities that had previously been integrated into their operations. The sales function largely escaped that mega-trend (Anderson *et al.,* 2003). More recently, Web sources suggest growth in the outsourcing of sales activities in the UK. United Drug Plc reported that their contract sales division grew 13% from 2008 to 2009 (2009 company report), 9% from 2009 to 2010 (2010 company report) and 19% from 2010 to 2011 (2011 company report). Peopleperhour.com reported that demand for field and telesales contract staff grew by 19% from 2008 to 2009 (PPH, 2009), that in 2010 demand for telesales had grown again by 6.8% and was the top skill requirement in their project postings (PPH, 2010). The number of sales outsourcing consultancies registered on freeindex.co.uk increased from 187 in February 2010 to 384 in July 2012. Tracking sales outsourcing in the UK is challenging, as organisations may define themselves as sales agents, telesales or telemarketing, contract sales organisations or sales outsourcing consultancies. Nevertheless, it would appear that there is at least a sustained increase in supply, which suggests some demand.

It is important for business academics to understand why companies might be turning to contract sales organisations to achieve their objectives, when the sales function is held responsible to a large degree, especially in business-to-business sectors, for organic growth in companies, and hence in the economy. It is perhaps the uncertainty in the economy, combined with a skills gap in the sales function in the UK (CFA, 2012), that has, in part, prompted consideration of new resourcing models.

There is a wide choice of third party resourcing models available to sales managers, even within single sectors (e.g. Rogers, 2009 on pharmaceuticals). Contractors may take on particular product lines, customer segments or sales activities such as product launches, new market entry, lead generation or sales support. They may also provide individuals to cover long-term absence of sales employees. It is not unheard of for whole sales functions to be outsourced (e.g. the example of Takeda, quoted in Rogers, 2008), but contracting out selected sales activities is much more widespread. The terminology "out-tasking" (Krishnamurthy, Jegen & Brownell, 2009) seems more applicable to the multiple business models used in the UK. Channel strategy is discussed in the literature review, as contract sales organisations may be compared to resellers or distributors when channel strategy choices are made. For sales managers, all types of third party "indirect" arrangements are alternatives to direct employment. This thesis primarily focuses on discussing the contracting out of sales activities compared with the option of employing people to do them, but has observed that there are grey areas between outsourcing and channels, or even bilateral co-operative selling.

It is noticeable that growth objectives can be linked to particular observed uses of contract sales organisations, such as accelerating new products into existing markets and introducing existing products into new markets. It is anticipated that the underlying reason for their use would be some aspect of improved sales performance, although establishing the relativities of sales performance between responding companies is not specifically investigated here. As with any case of resource allocation, the objectives of effectiveness and efficiency are assumed, even though managerial perceptions of objective measures are frequently flawed (Mezias & Starbuck, 2003).

Overall, the research problem is that the sales function in companies in the UK, which has the objective of generating growth, has to design a suitable resourcing model for growing revenue in a time of unprecedented pressure on costs and unprecedented risk. Outsourcing some sales activity is an option that should be considered when there are resourcing challenges, and the increasing availability of sales outsourcing suppliers in the UK suggests that outsourcing is reaching into the sales function.

1.2.2 Research aim

The overall aim of this study is:

To explore UK sales managers' perceptions of the antecedents and moderating factors influencing the outsourcing of sales activities.

The allocation of scarce resource is the essence of strategy, and since the sales function is deemed to be expensive and becoming more expensive (Anderson, 1985; Taylor, 1990; Anderson *et al.,* 2003; Anderson & Trinkle, 2005), it seems appropriate that sales managers should be asked about the justification for their organisational design and effectiveness. The overall aim of this study is to establish the perceptions of UK sales managers towards the factors that influence make-or-buy options when it comes to their resourcing decisions. This is a contribution to the call for more research on the sales function (Marshall & Michaels, 2001; Plouffe, Williams & Wachner, 2008).

Although Anderson *et al*. (2003) argue that the negative attitude of sales managers towards outsourcing is a factor in the predominance of insourcing, the primary aim of this study is to gain some insight into the way sales managers respond to and make sense of the constructs that research indicates should prompt make-or-buy decisions. Both perceptions and attitudes are subjective, but perception precedes attitude and might be only one factor in forming it, e.g. consumers perceive marketing as the means by which companies push products; because of their perceptions about the consequences of that, they have a negative attitude towards it (Heath & Heath, 2008). The perceptions of sales managers are not assumed to be reality, but they should provide some insight into the resourcing decisions they have made in their careers and the antecedents of insourcing or outsourcing particular sales activities.

1.2.3 Research objectives

Objective 1. The first objective is to explore sales managers' perceptions of the antecedents of outsourcing.

"Antecedent" in the outsourcing literature (e.g. Mol, van Tulder & Beijeet, 2005), commonly indicates a reason for outsourcing – an event or pre-existing condition. It has been observed from the literature that for make-or-buy decisions in general, and for make-or-buy within the sales function, that there are three main theoretical models that aim to explain the conditions which predict whether something should be insourced or outsourced: transaction cost economics, the resource-based view and real options theory (Leiblein, 2003). Transaction cost economics is focused on the cost of controlling an activity; the resource-based view is focused on relative competences internally and externally and how they generate "rent" for the firm; real options theory is focused on the need for choice in an uncertain business environment, and therefore favours the replacement of fixed costs with variable costs.

It is possible that constructs from each of these theoretical perspectives play some role in the outsourcing of sales activities, although each would claim a dominant role. Translating theoretical constructs into terminology commonly used by sales managers can be challenging, but the adoption of a qualitative approach enables exploration of the relationship between the subjective view of the respondent and the predictions of theory. This study examines the perceived strength of each of these theoretical models as an indicator of the outcome of make-or-buy decisions in the sales function.

Objective 2. The second objective is to explore sales managers' perceptions of factors moderating their resourcing choices.

Cause and effect are not always linear, as decisions can be moderated by intervening circumstances. The desire to outsource or insource an activity can be established but the preferred sourcing model may not be feasible. Espino-Rodríguez and Padrón-Robaina, (2004) distinguished between the desire to outsource and outsourcing behaviour. Moderating factors are worthy of exploration.

Respondents in Anderson's 1985 study reported that there should have been a question about the availability of good manufacturers' representatives, and in 2003 Anderson *et al.* returned to the effect of perceptions of a poor supply market. This factor will be specifically examined. Anderson *et al.* (2003) also revisited the question of the legitimacy of sales outsourcing raised by Weiss, Anderson and Macinnis (1999). Concerns about whether or not sales outsourcing is perceived by customers to be normal and reputable might inhibit the practice. The 2003 paper also observed that competency in managing outsourcing would be an important factor in sales managers' perceiving that they could succeed with outsourcing (perceptions of outsourcing performance are also considered), and this theme is explored in outsourcing in general (Madhok, 2002). Although Anderson *et al.* (2003) made other propositions about conditions affecting sales outsourcing, most of them were contextual; these three were perceptual. Adopting an exploratory approach, and selecting a sample from a variety of contexts, these three perceptual factors may be observed across different sales managers with experiences of different industry sectors and types of company.

Objective 3. This study will also consider which sales activities are considered most suitable for outsourcing.

Although there is no discernible guidance in the literature about which sales activities might be seen as suitable for outsourcing, it is important to take a granular approach, as in Watjatrakul and Drennan (2005). The primary research will prompt not only for the proportion of contracted activities (Gilley & Rasheed, 2000), but also for the activities that are actually outsourced. On the basis of preliminary discussions with the companies that provide outsourced sales, the following are expected to feature: lead generation, lead qualification, end of life products, desk-based support for key accounts, merchandising, product launch, non-strategic customer segments, difficult to serve locations, new market segment entry, after sales follow-up and sales temps (e.g. maternity leave cover).

Empirical examinations of sales outsourcing to date have focused on all-or-nothing outsourcing to manufacturers' representatives or sales agents. However, there are many in-between states that are observed in other functions, such as IT and FM, the "hybrid governance" state described in transaction cost economics (Gilley & Rasheed, 2000; Martinez-Sánchez, Vela-Jiménez, Luis-Carnice & Pérez-Pérez, 2007; Krishnamurthy *et al*., 2009). This may be described as partial outsourcing or out-tasking. This study contributes to knowledge by exploring how sales managers divide up sales activities to realise opportunities to use contractors, or to mix contractor expertise with in-house expertise.

1.3 Contribution to knowledge

By pursuing these research objectives, this study offers a contribution to theory by modelling the decision-making of sales managers when they are considering whether to insource or outsource activities. This model encompasses the perceived antecedents for sales outsourcing decisions and perceptual factors that moderate the outsourcing of sales activities. The value of the model has been validated with respondents, and has potential for further exploration and testing.

Because sales outsourcing has not been addressed by a qualitative cross-sectoral study before, this is the first comprehensive model of sales managers' perceptions of their resource decision-making process.

Within the exploration of this decision-making process, insight has also been generated about the type of sales activities that are usually contracted out and contextual norms, but exceptional cases have also been identified. The sales managers' view of the contrast between motivating salespeople and controlling contractors has been explored. Findings have been generated which address a number of gaps in the literature on sales outsourcing, specifically:

1. The focus of this study is on the outsourcing of individual sales activities, rather than the outsourcing of the sales function as a whole, so a variety of business models and concepts can be examined. By exploring what activities within the sales function are being outsourced in a granular way, greater insight can be generated about perceptions of the "make-or-buy" decision.
2. This study accommodates recent findings in the literature which challenge the assumptions about the nature of internal and external contracts that underpin transaction cost economics. By adopting an exploratory approach, apparent contradictions such as flexible contracting with third parties and rigidity within employment contracts can be exposed.

3. This study looks at predictors of resourcing choices from transaction cost economics, the resource-based view and real options theory in a way that has not previously been attempted. Quantitative studies tend to focus on the constructs of a single theoretical lens, whereas an exploratory study opens up the possibility of more than one approach being considered in practice.
4. This study examines the perceptual moderating factors flagged up by other researchers but not yet consolidated into a “make-or-buy” study of sales. It has been noted that the antecedents which have driven outsourcing in other functions do not have the same effect in the sales function, therefore exploring what might come between the intention to outsource and outsourcing behaviour is important insight.
5. This study identifies which sales activities are commonly outsourced, and exceptional contexts for sales outsourcing. In an exploratory study, it is important to note exceptional circumstances and to consider the reasons for exceptions to general rules.
6. This study makes use of qualitative methods so that causality can be explored.
7. Significantly, this study offers a theoretical model of the sales managers’ decision-making process when considering resourcing options. A conceptual model mapping the perceptions of sales managers when faced with make-or-buy decisions has not previously been attempted. The proposed model has been verified by a significant proportion of respondents, and it is worthy of further testing.
8. This study also identifies some interesting possibilities for future research, such as the bond between sales managers and their reporting staff. Work on the psychological contract has tended to focus on the way employees feel about their employers and immediate managers; this study has identified an interesting angle on the way managers feel about their reporting staff.

1.4 The gap in the sales management literature

Although outsourcing has been extensively used in most functions in organisations, it is perceived as underused in the sales function in the US and Europe (Anderson *et al*., 2003). With sales outsourcing suppliers growing in terms of number and size in the UK (see page 4), there is clearly a change to some degree, which is worthy of investigation, as a contribution to knowledge about both outsourcing and sales management. Equally, if sales is a function where outsourcing only has limited applications, that is also worthy of exploration. The literature offers the view that "salespeople are value-creating knowledge workers, much like architects" who operate in "unique contexts" (Dixon & Tanner, 2012, p. 12), so their work cannot be standardised. However, since many organisations outsource knowledge work such as architecture, even at the most sophisticated levels of selling, the question remains – why are salespeople usually employed?

Senior sales scholars have noted the need for new research on the effectiveness of the whole sales function (Marshall & Michaels, 2001; Plouffe *et al*., 2008; Williams & Plouffe, 2007). Plouffe *et al.*'s review concluded that of the 1012 sales research articles in top journals (1983-2006), only 68 considered the sales organisation. "Sales research that is truly strategic would, for example, evolve beyond the individual salesperson as the principle unit of analysis." (Plouffe *et al*., p. 89). Considerable thinking is needed about how the sales resource is optimised, enhanced or changed, and this research will contribute to that. It examines particular choices for UK sales managers by looking at make-or-buy alternatives in sales resourcing at a granular level, i.e. out-tasking, rather than the outsourcing of the whole sales function. This research is important in examining whether the theoretical models for "make-or-buy" are applicable to the out-tasking of sales activities in the recessionary UK economy of the early 21st century. Even in 1985, Anderson referred to the "exploding cost of personal selling" (p. 234), but a study of the contracting out of sales activities needs to go beyond the production cost advantage argument to encompass the constructs of transaction cost economics, the resource-based view and real options theory.

1.5 Extant literature concerning resourcing issues in the sales function

The purpose of sales, according to the UK Marketing and Sales Standards Setting Body is:
"To create and sustain mutually beneficial and profitable relationships through personal and organisational contact" (CFA, 2012, p. 10). From a practitioner point of view, there seems to be an underlying assumption that human capital is involved in selling. But does it have to be human capital that is directly employed?

"The sales force" is certainly a big part of companies, especially in business-to-business markets. Piercy (2006) points out that there are more salespeople than marketers in the US and the UK, and that the sales function in most companies is very expensive; more is spent on selling in the UK than either advertising or sales promotions. He also focuses on the impact that the sales organisation has on customer relationships, some of which have become very big and strategic. Another pertinent point is that the sales function has faced enormous change over the past twenty years, changing from a focus on product sales to solving customers' challenges (Piercy, 2006; Rogers, 2007).

Nevertheless, sales function obsolescence is a possibility, observed by Colletti and Chonko (1997) and Rackham and DeVincentis (1999). Jones, Chonko and Roberts (2004) found that 73% of companies were reporting the cost of sales calls dramatically increasing, and 54% of the buyers they dealt with saying that they no longer needed to see a salesperson. Therefore, the shape and role of the sales function should now be a strategic corporate issue (Piercy & Lane, 2005; Rogers, 2007 and Zoltners, Sinha & Lorimer, 2008). Zoltners *et al*. (2008) draw the logic of sales effectiveness from the business environment through business strategy to sales force structure, activities and results. The need for new effectiveness models is a very pertinent topic for sales managers (Ruzicic & Danner, 2007).

A direct sales force has many advantages – sales representatives are directly and selectively recruited. The “owning” of a sales force is expected to lead to shared values, participation in the company, information sharing and working in teams. Salespeople can be quickly switched from one task to another. In return, employed salespeople expect the commitment of employment security, promotion from within, training, fair treatment and a high basic wage, as well as additional incentives (Colletti & Chonko, 1997). Much sales research to date has focused on the performance of the individual salesperson. In 1985 Churchill, Ford, Hartley and Walker conducted a meta-analysis of 116 studies of salesperson performance dating back to 1918, and concluded that none of the predictors studied could account for a great deal of variation in performance. Nevertheless, researchers are still addressing individual predictors of salesperson success, for example: personality traits (Deeter-Schmeltz & Sojka, 2007); demographics (Fu, 2009); knowledge structures (Sharma, Levy & Evanschitzky, 2007); ability to perceive emotion (Kidwell, McFarland & Avila, 2007); learning (Bell, Menguc & Widing, 2010); use of technology (Ahearne, Jones, Rapp & Mathieu, 2008); role conflict (Onyemah, 2008); and customer orientation (Jaramillo & Grisaffe, 2009). Since 1998, when Piercy, Cravens and Morgan found evidence for behavioural control being strongly associated with better sales performance, there has been some interest in the behaviour-based control of employed salespeople (Mackenzie, Podsakoff & Rich, 2001; Baldauf, Cravens & Piercy, 2005; Panagopoulos & Avlonitis, 2010; Piercy, Cravens & Lane, 2012).

The primary focus of this study, however, is on how companies use third party sales resource, an element of sales resourcing that has not been extensively researched (Anderson *et al*., 2003; Rapp, 2009). Throughout history, manufacturers have delegated customer management to distributors, retailers or other intermediaries in the supply chain. McQuiston (2001) traced the history of sales agents in the US back to the textile industry in the north-east USA in the early 19th century. Textile mills contracted them to sell their cloth. They did not take title to the goods, but relied on the "principal" to manufacture, ship, invoice and service. This business model, called in the US "manufacturers' representative" is still the clearest and best documented in academic literature.

Marketing strategy textbooks always include consideration of what are generally called channels to market – the third parties that may act as intermediaries between manufacturers and consumers. In business-to-consumer markets, multi-channel approaches have been embraced by many companies since technology has enabled new options (Wilson & Daniels, 2007). The way in which goods and services are delivered to customers is a platform for value innovation (Kim & Mauborgne, 1997), and a critical aspect of productivity (Ledingham, Kovac & Locke Simon, 2006). The central decision for any new venture is whether to "make-or-buy" the sales force (Zoltners, Sinha & Lorimer, 2006).

Mehta, Dubinsky and Anderson (2002) define marketing channels as a set of external organisations that a firm uses to achieve its distribution objectives. They include direct, indirect and "agency" sales, where a sales agent (in person, over the telephone, or over the internet) represents the manufacturer to the end-user and brokers a sale without taking title to the goods. Agency arrangements can be described as "outsourced" sales. The customer may not even be aware that they are dealing with an agent. Bousfield (2003) comments, in writing about outsourcing call centres, that companies may do so "to gain access to world-class capabilities in customer management, an area that, though vital to any organisation's success, is not a core business skill for most." (p. 111).

There are many thousands of channel intermediaries in the USA, which includes brokers, manufacturers' representatives and sales agents. Half of US firms use external sales representatives, but only just over a tenth of business-to-business volume is handled by manufacturers' representatives (Anderson *et al*., 2003), which suggests that a lot of partial outsourcing is going on. Although some companies do outsource all sales activities to contract sales organisations in the US, hybrids are also observed (Novick, 2000). Some manufacturers' representatives are one-man-bands, others employ over one hundred people (Gulati & Bristow, 2005). US researchers observe that if a company buys into a channel and its existing customers, cost and risk can be reduced, and productivity increased (Narus & Anderson, 1996; Ross, Dalsace & Anderson, 2005). These arguments are even more compelling in export markets where there are strong cultural differences, e.g. between the USA and Asia (Anderson & Coughlan, 1987). Their study of 94 product introductions over twenty years concluded that a market entrant should achieve economies of scale, economies of scope and reduce bureaucracy by using local agents.

There are two seminal empirical studies of the use of manufacturers' representatives/ contract sales organisations, one in the USA and one in Germany. Anderson's 1985 study of sales outsourcing examined "all rep salesforce" or "all direct salesforce" (p. 242) samples, and Krafft *et al*.'s 2004 study also excluded hybrids, even though hybrids and partial out-sourcing/out-tasking have been mentioned in some of the outsourcing literature as feasible or even desirable business models (Dutta, Bergen, Heide & John, 1995; Gilley & Rasheed, 2000; Aron, Clemons & Reddi, 2005; King, 2006; Rothaermel, Hitt & Jobe, 2006; Martinez-Sánchez *et al*., 2007; Raiborn, Butler & Massoud, 2009; Krishnamurthy *et al*., 2009).

Overall, it is clear that within the small sales management literature, there is an even smaller body of literature on "make-or-buy" in sales. This study is significantly different from the extant studies in that it is interested in partial outsourcing or out-tasking, as the researcher's studies to date have shown it to be present and thriving in the UK pharmaceutical sector (Rogers, 2009). Other studies of outsourcing have identified "propensity to outsource", which means the proportion of activity that is outsourced as an alternative dependent variable compared to wholesale outsourcing of a function (Gilley & Rasheed, 2000; Espino-Rodríguez & Padrón-Robaina, 2004). However, since it is of interest to establish which sales activities get outsourced as well as the degree of outsourcing, this study will attempt to identify particular activities that may or may not be outsourced as well as the proportion of the sales function that is outsourced.

Although the sales outsourcing literature is very small, there have been many studies of "make-or-buy" in other parts of the internal value chain, which can provide a theoretical framework for a study of this kind.

1.6 Conceptual framework for "make-or-buy" decisions

Delegating selected selling activities to third party organisations is common, but sales outsourcing has not been embraced as broadly as outsourcing of other activities such as information technology, logistics and facilities management (Anderson *et al*., 2003). The principles, however, are not very different. Kakabadse and Kakabadse (2002a, p. 1) explain: "Outsourcing involves contracting with a third party to provide goods and services to the host organisation that would otherwise have been available in-house". Anderson & Trinkle (2005, p. 1), in discussing sales outsourcing, are even more succinct: "To outsource a function is to pay someone else to do it for you." This study will therefore utilise the generic "make-or-buy" literature to provide constructs for sales outsourcing.

These theoretical schools of thought about “make-or-buy” will be presented in chronological order of their impact on business literature:

- transaction cost economics (originating in a 1937 article, popularised in the 1970s/80s);
- the resource-based view (its origin has been attributed to a 1959 book, but RBV was popularised in the early 1990s);
- real options theory (introduced into general business literature in the 1990s).

The issue of cost versus price will be considered, as it will always be examined in practice. A meta-review of 210 studies found that the benefit of cost advantage is a dominant factor (Kremic, Tukel & Rom, 2006). However, this is only part of the theoretical lens of transaction cost economics, based on the seminal works of Coase (1937) and Williamson (1975), which focus on the costs of controlling contracts and future hazards in contracts. In short, an activity will be outsourced only where it is easier to control by a market contract. It is imperfections in the market leading to costly contracting that drive firms to insource.

Broad support for the constructs of transaction cost economics, especially asset specificity (the uniqueness of assets) and behavioural uncertainty (difficulty in measuring performance) is given in a number of meta-analyses encompassing hundreds of empirical studies (Rindfleisch & Heide, 1997; David & Han, 2004; Carter & Hodgson, 2006; Geyskens, Steenkamp & Kumar, 2006; Macher & Richman, 2008). In TCE, these factors create hazards in external contracting leading to a preference for insourcing. However, the assumption underpinning TCE that contractual hazards exist in the market and that employment contracts are more adaptable is not universally accepted (Moscheandras, 1997). Agency theory expects opportunism within firms as well (Fama & Jensen, 1983). This study will also explore perceptions of internal opportunism among employed salespeople, as observed by Jelinek and

Ahearne (2006), as a counter-balancing factor to the argument that external contractors are more difficult to control.

The strategic view, sometimes labelled the “resource-based view” (Grant, 1991) focuses on capabilities. Grant argues that “capabilities involve complex patterns of co-ordination between people and between people and other resources.” (p. 122). In short, “core” capabilities are valuable sources of differentiation and economic rent; non-core activities can be outsourced (Espíno-Rodriguez & Padrón-Robaina, 2006). Some researchers note complementarities between TCE and RBV (Argyres & Zenger, 2007) and this was a conclusion in one UK study of sales outsourcing (Wilson & Zhang, 2002). Nevertheless, the view that capability is something beyond asset specificity is strongly held (Barney, 1999). The degree to which accessing capabilities is a factor in determining “make-or-buy” decisions in the sales functions will be explored in this study.

Real options theory, which has its roots in financial portfolio analysis, was applied to strategy by Sanchez (1993). In uncertain business environments, it is prudent to diversify the way in which activities are resourced. In general, there is a value in having variable rather than fixed costs (Stigler, 1939) and adaptability can be a source of improved performance (Fantazy, Kumar & Kumar, 2009). Real options can also be complementary to both TCE and RBV, since diversity of control may be perceived to increase overall control of a function, and the acquisition of other firms’ capabilities may be part of a firm’s competency-building strategy. Option-optimising behaviour has been observed in outsourcing sales activities in the UK pharmaceutical sector (Rogers, 2009) and its value is worthy of exploration in other industry sectors.

These predictive theories will be discussed in detail in the literature review, and antecedents derived from them will be explored in the primary research phase of this study. The advantage of this exploratory study using a qualitative method is to elicit the views of senior sales decision-makers about a variety of possible antecedents and moderators which are suggested by theory and previous research findings.

1.7 The treatment of moderating factors in the extant literature

There are moderating factors that may come between a company's intention to outsource, and its actual behaviour (Espíno-Rodriguez & Padrón-Robaina, 2005). These do not appear to have been examined in previous studies of sales outsourcing, although researchers have alluded to them in discussions about further research (Anderson, 1985; Anderson *et al*., 2003). This study will explore some specifically "perceptual" moderating factors, in order to address this gap.

Anderson (1985) raised the possibility that the availability of good vendors was an important consideration, as was switching costs (although this is less likely to be an issue where limited tasks are outsourced). The work of Dyer and Singh (1998), Lonsdale (1999) and Mantel, Tatikonda and Liao (2006), is supportive of the view that, for outsourcing in general, availability of good vendors is important to success. It is important to examine perceptions about the availability of suppliers and services of sales outsourcing, because Anderson *et al*. (2003) suggested that sales managers' perceptions were worse than reality, indicating that the perception itself is the powerful moderator.

This study will also consider the role of industry norms as an external mediator for out-tasking in sales, which has been explored to some degree by Anderson (1988) and Weiss *et al*. (1999). A few researchers have observed a tendency for firms to copy one another, even where imitation has a negative effect on performance (Deephouse, 1996; Gimeno, Hoskisson, Beal & Wan, 2005; Miranda & Kim, 2006; Barreto & Baden-Fuller, 2006). It is necessary to explore whether the outsourcing of sales activities is considered "legitimate" in an industry, or among a peer group of companies, and to what degree. Weiss *et al.*'s 1999 study is particularly interesting as it aligns adherence to norms with concerns about company reputation. Here also, perceptions of legitimacy are potentially strong constraints (Anderson *et al*., 2003).

In addition, there are factors about individual companies that may make it more or less easy for them to undertake outsourcing. For example, although US firms wanted to emulate the Japanese capability to work co-operatively with suppliers in the 1980s, they were trying to accelerate a process that had been built up over many years (Barney, 1999). Companies and individual managers have to experience a learning process.

Researchers have noted the importance of clients' vendor management skills in making outsourcing successful (Mayer & Salomon, 2006; Barthélemy & Quélin, 2006; Judge & Dooley, 2006; Díez-Vial, 2007; Handley & Benton, 2009). Kakabadse and Kakabadse (2002a) noted that less than 10% of companies in their study were demonstrating aspects of best practice, which suggests that many companies may still be far from confident about the on-going management of outsourcing relationships. This suggests that those tasked with managing outsourcing may perceive that they do not have the necessary skills to be successful with it, which in turn affects their perceptions of the performance contribution of outsourcing (Anderson *et al*., 2003). The primary research will explore where respondents perceive themselves in terms of outsourcing capability, and how that influences how much outsourcing they do.

Anderson *et al*. (2003) have suggested that the preference of the sales director or manager may be itself a significant moderating factor, as sales managers are often given considerable autonomy over resourcing decisions. This study is rooted in the perceptions of sales managers, so is likely to indicate preferences and explain to some degree why they arise. Why sales managers might have more power than managers of other functions to act upon their preferences cannot be easily explained by asking them, and is beyond the scope of this study.

1.8 Summary of the existing gap in knowledge

Although the use of contract sales organisations is under-researched worldwide, there is at least a small body of literature on various topics concerning manufacturers' representatives in the United States. There are very few studies in Europe. Indeed, there are relatively few UK studies about the way sales functions are managed. The sales academic community is relatively small worldwide and only a few academics in the UK have a sales specialism (Richards *et al*., 2010).

There are two landmark studies of sales outsourcing – Anderson in 1985 (one sector in the US) and Krafft *et al*. in Germany in 2004. Anderson looked specifically at the constructs of transaction cost economics; Krafft *et al*. looked at TCE and agency theory. Both supported TCE, specifically that insourcing is preferred where behavioural uncertainty and asset specificity are high. The most notable empirical study of the sales function from the RBV point of view is Menguc and Barker (2005) in Canada, although Wilson and Zhang (2002) in the UK manufacturing sector compared TCE with RBV. The construct of "flexibility" as a driver for outsourcing sales activities was explored in the qualitative study preceding this thesis (Rogers, 2009) in the context of the UK pharmaceutical industry. This study builds on those studies, but also addresses a number of gaps, as discussed in 1.3.

1.9. Need for the present study

Although there is a small body of literature on sales topics, the majority is focused on the individual performance of employed salespeople. A few studies exist about the use of external agents for sales activities, enough to indicate that the practice is well-established in some companies in the USA and Europe. With a large body of literature on competing explanations for make-or-buy decisions, it is important to apply this knowledge to the sales field. With more objective understanding about the perceptions that enable or inhibit sales outsourcing in the UK, it might be possible to improve sales resource effectiveness and efficiency, leading to better outcomes for UK companies. With a persistent skills gap in the sales function in the UK (CFA, 2012), it is clear that even in a recession, companies are having difficulty recruiting staff of sufficient calibre. Therefore, alternative approaches are necessary to ensure that sales functions have the means to fulfil the growth objectives of their oganisations.

This study will make a contribution to filling the gap in the sales management literature in general, as well as the specific contribution of modelling sales managers' decision-making when evaluation resourcing options. It should also make a contribution to practice, enabling sales managers to approach external resource options with a full understanding of what problems they can and cannot solve. As such, it should also be of value to professional institutes representing the sales profession.

1.10.1 Research philosophy

Subjective facts are opinions that people hold that would be constant assuming consistent circumstances (Arbnor & Bjerke, 2009). This study is a search for subjective facts - the perceptions that sales managers have about their resourcing choices and resulting outcomes. The research paradigm most likely to help in this respect is interpretivism.

Meaning is not a function of data (Onwuegbuzie & Leech, 2005). In this study, the interpretivist philosophy has been adopted to explore meaning, because causal impact and local context are relevant (Longshore-Smith, 2006) in pursuit of research results that are “informative, complete, balanced and useful” (Burke Johnson, Onwuegbuzie & Turner, 2007, p. 129).

1.10.2 Research methodology

In the case of a study about the use of contract sales organisations, it is important to recognise that there is not much historical guidance. The extant literature can, at best, be described as “modest” (Rapp, 2009), and, apart from Krafft *et al*. (2004), within the few key empirical studies, the contexts are rather narrow (e.g. single sub-sector or geographical area). That leads to an expectation that in-depth qualitative research would yield most insight. The application of a qualitative research method enables exploration of specific contexts that have led to particular resourcing models being deployed, so that the unusual can be considered alongside the usual.

This study is different from previous studies, not only in its geographical focus, but in its cross-sectoral sample and methodological approach. The purpose of a qualitative study is to improve understanding about the use of contract sales organisations in the UK by exploring the expressed views of respondents. In this study, in-depth qualitative interviews were conducted by telephone, which required a reasonably structured approach. Quintamensional question design (Gallup, 1947) was a helpful guide in ensuring that factual and open questions could be converged to provide a comprehensive analysis of the research question (Cresswell, 2003).

In this study, the unit of analysis is sales managers. The correct respondents for this study were managers with responsibility for the effectiveness and efficiency of the sales function in their organisation, or part of it. These managers are the primary decision-makers when it comes to employing salespeople or contracting out. Some consideration may be needed for the influence of other decision-makers, but the purpose of this study was to focus on the perceptions of sales managers about outsourcing sales activities.

Finding a suitable sampling frame was not as easy as it might be for other professions, which is discussed further in the methodology chapter. Given problems with the incompleteness of national statistics on the population of sales managers, lack of a professional institute with critical mass and problems observed with a commercial database used for another purpose, a snowball approach was considered the only feasible way. Sales managers are difficult to engage in research (Carter, Dixon & Moncrief, 2008), therefore an approach via their network might be the best way of achieving a reasonable number of responses.

Interviewer-administered surveys tend to achieve higher response rates (de Vaus, 2002; Saunders, Lewis & Thornhill, 2003), and with these respondents, who represent a highly mobile organisational “elite”, telephone interviews were preferred.

1.10.3 Data analysis

Replication in social science should be accorded critical importance (Lindsay, 1995), and constructs from earlier studies were used to guide the interview design. However, examination of the wider literature beyond previous studies of sales outsourcing demanded the exploration of new angles as well, and therefore the data gathered in this study was words rather than numerical scales.

Respondents were asked to explain in their own words how they perceive cause and effect. The purpose of asking an open question is to establish whether the answer is related to an already established possibility, or whether it represents a new possibility (Christy & Wood, 1999).

Directed content analysis was carried out on the data. The analysis was conducted on the basis of the frequency and emphasis of key words and phrases, accommodating synonyms and shared meaning. The text was searched, structured and analysed into themes using the software package Nvivo.

1.11 Some definitions

Throughout this thesis, the company that is doing the outsourcing will be referred to as “the client”, and the company supplying the outsourced function will be referred to as “the vendor”. In the specific case of companies providing an outsourced sales function, there are a variety of terms in the literature including “manufacturer’s representatives”, “independent sales organisation”, “agents”, “resellers” and “contract sales organisations” which will have to be used alongside “vendor”. Most of the prior literature on this topic is focused on the manufacturers’ representatives’ model. Manufacturers’ representatives are “independent professional providers of field sales and marketing services to manufacturers or suppliers” (Kaufman, 1999). They do not set prices or handle stock like wholesalers and retailers. They do not sell competitors’ products. They sell a complementary portfolio of products to provide convenience for the end-customer (Novick, 2000; Anderson & Trinkle, 2005). However, in the primary research anything that respondents classify as contracting out of a sales activity will be considered.

Sales agents have a particular legal standing. It is common practice for a company to employ a third party to negotiate a contract on their behalf. The agent acts for the principal in completing tasks, under the terms of a legal arrangement in which the principal may set limitations on the activity of the agent. Some sales agents are clearly acting as agents for a principal, and may have their own brand. Others act under the brand umbrella of the principal (this is common in telesales). Where the principal is “unseen” by the customer, UK case law suggests that principals’ attempts to limit agent behaviour are overridden by the “custom and practice” of what the customer would expect them to honour (Watteau v Fenwick, 1993, discussed in Rogers K. M., 2004).

Companies that undertake selling on behalf of clients do not always operate under agency law, but where outsourcing is being discussed in contractual terms, it will be necessary to identify the company that is devolving activity as “the principal” and the company carrying out devolved activity as “the agent”.

1.12 Assumptions

Sales managers have bounded rationality, but have a professional concern to ensure the optimal effectiveness and efficiency of the sales function.

1.13 Organisation of the thesis

This thesis begins in this first chapter with an introduction to the research topic and its importance as a contribution to knowledge.

The literature review (Chapter 2) begins with an exploration of the literature on “make-or-buy”/outsourcing as a means to operational effectiveness in pursuit of strategy and it examines the observed strengths and weaknesses of “outsourcing” *per se*, and hybrid/partial outsourcing (2.1).

The literature review then moves on to consider the main theoretical approaches to explaining outsourcing: transaction cost economics (2.2.1), the resource-based view (2.2.2) and real options theory (2.2.3). In 2.3, consideration of the sales literature will identify previously discussed antecedents of sales outsourcing and their theoretical roots. The literature on moderating factors will then be discussed in 2.4. The literature review concludes with a summary of the themes from the literature and a discussion of the questions to be explored in the primary research (2.5).

Chapter 3 provides an in-depth rationale for the research methodology. The philosophical positioning (interpretivism) is explored. The range of research methods available is discussed and the choice of research design is explained. The approach to identifying and recruiting respondents, questionnaire design, piloting, administration of the interviews and data processing is presented. Reliability and validity are discussed. The ethical approach to the research is stated.

Chapter 4 both describes the results from the analysis of the primary research data, and provides analytical and critical discussion of the primary research results in relation to research questions.

Chapter 5 revisits the objectives and questions and summarises the main findings, conclusions, implications, and contribution to knowledge. It also identifies research limitations and new directions for future research.

Model of the contents

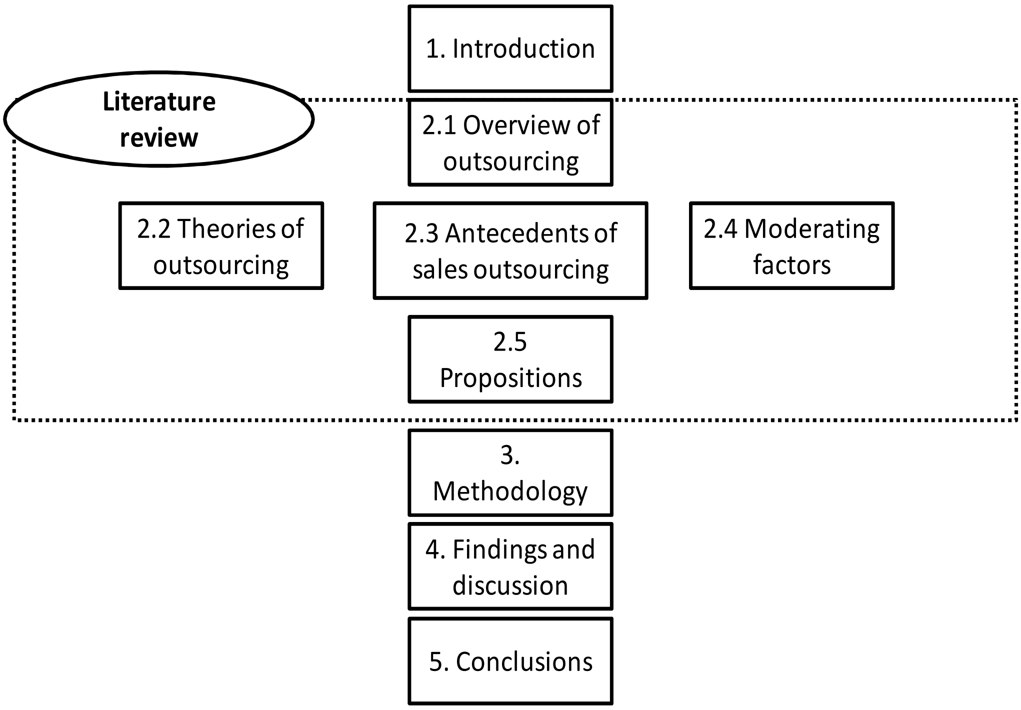

Figure 1: Model of the thesis contents

Source: The author

1.14 Summary

This chapter has explained the importance of the research and provided an introduction to the research topic. It has presented the research aims and objectives, and outlined the research questions and research methodology. The next chapter is a review of the literature relevant to “make-or-buy” decisions, with a focus on sales activities where sources allow.

Chapter 2: Literature Review

This chapter examines the extant literature that underpins “make-or-buy”, starting with consideration of the importance of the alignment of organisational design with strategy. This is followed by a review of the literature on outsourcing. Theoretical constructs of “make-or-buy” antecedents are then reviewed, in chronological order of their appearance in the business literature, starting with transaction cost economics (1937), then the resource-based view (1984) and subsequently the more recent theory of real options (1993). The extant studies of outsourcing sales activities are then discussed, examining how theories have been used and exploring how theoretical antecedents might be perceived in practice. Most studies consider limits to the application of theory based on moderating factors, and these are reviewed in 2.4. In conclusion, propositions based on the literature are discussed.

2.0 The alignment of organisation design with strategy

“Virtually all issues of corporate strategy and many of business strategy involve the boundaries of the firm” (Foss, 1999, p. 728).

Profitable growth is the expectation of virtually all investors, (Hitt *et al*., 2006), but saturated markets, intense competition and economic uncertainty have challenged companies in developed economies. Much that was described as growth in the 1990s was the result of financial engineering or serial acquisitions. Growing from within requires change, but firms that plan to change do not always have the means to succeed and need to leverage external resources (Kazajian *et al*., 2006).

Effective adaptation to market conditions and efficiency (eliminating waste) are both very important considerations for firms, but adaptation is particularly crucial

(Williamson, 1991). It can be costly to make the wrong choices in, for example, "make-or-buy" when entering new markets (Anderson & Coughlan, 1987), as switching causes loss of investment and redeployment problems (Anderson & Weitz, 1992). Nevertheless, the cost of change has to be offset against the cost of misalignment.

A high performance system is one that can adapt rapidly. Adaptation can involve getting things done in the market, within the firm (hierarchy) and with in-between organisational forms (hybrids). Aligning strategy with the business environment is a "central anchor" for management, and "intuitively appealing" (Venkatraman & Prescott, 1990, p. 15). Indeed, there is strong empirical support from a two-sample, longitudinal study that achieving alignment between the business environment and strategy has a positive effect on a firm's performance (Venkatraman & Prescott, 1990). Much subsequent literature on the alignment of organisation design with the business environment has been more about building theory than testing it (see table 1).

Table 1: Aligning organisational design with business environment and company strategy

Authors	Date	Type of research	Context	Relevant findings
Venkatraman & Prescott	1990	Empirical	Environment/ strategy co-alignment	Positive performance impact of environment-strategy coalignment.
Williamson O	1991	Comment	Structural Alternatives	Adaptation is the key economic problem – a high-performance system is one that can adapt rapidly; market, hierarchical and hybrid all possible.
Hitt *et al.*	1998	Comment	Competitive advantage	Developing new organisational structures as part of leadership in 21st century.
Noble	1999	Literature review	Strategy implementation	Success is associational with fluidity/flexibility in adjusting organisational structures.
Dijksterhuis *et al.*	1999	Theory building	Where do new organisational forms come from?	Organisational form is supposed to align company with its environment. But shared management "schemas" are part of the environment.
Snow *et al.*	2005	Comment	Organisational design theory	Managers need to anticipate changes needed: overcome weaknesses of current form; exploit underused potential in current form.
Dovey & Fenech	2007	Case study – finance sector	Organisational learning	Tight structures are the cause of organisational stagnation.

The 21st century business environment, characterised by discontinuity, blurring of boundaries and hyper-competition, requires innovation in organisational design (Hitt *et al*., 1998; Snow *et al*., 2005). For example, in a survey of European pharmaceutical sales managers, 60% reported piloting new sales models to respond to the increasing power of governments and insurance companies who pay for treatments (Ruzicic & Danner, 2007). There is not a deep body of literature about the implementation of strategy (Noble, 1999), but what there is suggests that successful implementers are those able to adapt to change in the business environment and the ability to change organisational design is a key part of that (Noble, 1999).

Although the business environment is considered to be the main driver of change in organisational design, the perceptions of managers about how to change are also relevant (Dijkerhuis *et al*., 1999). Organisational barriers can be “pervasive” (Meer, 2005, p. 14), and managers can be unaware of the misalignment between activity and strategy (Strahle, Spiro & Acito, 1996). Rigid structures can lead organisations to fail to learn and transform, and to fail to realise the business results necessary for the organisation’s survival (Dovey & Fenech, 2007). Many companies that plan to change are already in difficulty (Wheeler, McFarland & Kleiner, 2007). Being able to direct change is key (Coase, 1937). Like Coase, some managers may perceive market structure and exchange transactions as complicated in comparison with directing employees (Coase, 1937). Other may perceive that vertical integration is “competitively inflexible in a rapidly changing business environment” (McIvor, 2000, p. 41).

Williamson (1991) argued that hierarchies and markets are polar opposites, with hybrids in between. Because of presumed risks associated with market transactions, internal change used to be asserted as the easier option (e.g. Ansoff, 1987), but it is outsourcing into the market that has boomed in the past thirty years. Outsourcing is even “on the rise for business activities that are knowledge intensive, non-standardized, interactive, and intended to generate new knowledge” (Mudambi & Tallman, 2010, p. 1435).

Since accessing and leveraging external resources through outsourcing seems to be a solution that many companies have used to better align their organisational design with the business environment, the next section examines the literature on the outsourcing phenomenon.

2.1 Outsourcing: a literature review

This section traces the outsourcing literature to the link between business strategy and organisational design and tracks the emergence of outsourcing as an increasingly popular organisational design choice throughout the 1990s and 2000s. It introduces the main theories associated with outsourcing and examines how sales outsourcing is discussed in the marketing literature. It considers different outsourcing models; in particular, it discusses the concept of out-tasking, an approach to outsourcing at a very granular level of analysis.

2.1.1. Outsourcing as an organisational design choice

2.1.1.1 A short history of outsourcing

Kakabadse and Kakabadse (2002b) point out that the Romans outsourced tax collection, and that most public services in 18th and 19th century England, such as prison management and road maintenance, were carried out by the private sector. The vertically integrated firm, and vertically integrated government, were products of the early 20th century. In the 1950s, only specialist functions such as advertising and legal services were “outsourced”.

By the end of the 20th century, large bureaucratic self-contained firms were regarded as inefficient; unable to meet their own needs for cost discipline and service quality (Kakabadse & Kakabadse, 2002b). In “make-or-buy” decisions, the consensus was for buy (Ford, Cotton, Farmer, Gross, & Wilkinson, 1993). Almost anything could be outsourced, apart from what determines the firm’s identity, such as intellectual property or a brand (Sucky, 2007).

Corporate enthusiasm for downsizing has fuelled the popularity of outsourcing. Outsourcing is now widespread in the developed world, with both public and commercial organisations contracting several business processes to third party specialists (Morgan, 2003). The majority of firms in Kakabadse and Kakabadse's (2002b) study of 747 senior executives in North America and Europe reported that they were outsourcing at least "basic" services. The first generation of outsourcing was rarely strategic, but driven by the finance and purchasing function for short-term cost advantage (Ford *et al*., 1993).

In 1989, the market for information technology and business process outsourcing alone was worth US$9-12 billion; by 2007 it was worth US$200-250 billion (Lacity, Willcocks & Rottman, 2008). Based on their twenty year research programme involving 500 companies worldwide, Lacity *et al.* (2008) expected the outsourcing phenomenon to continue increasing in "size, importance and complexity" (p. 32).

One business function seemed to have bucked the trend. Selling has been by-passed by the outsourcing boom, even in the USA (Anderson *et al*., 2003). Their estimate (based on US census data) of approximately one tenth of business-to-business volume being generated by manufacturers' representatives (contract sales organisations) has not changed since the 1980s. However, supply-side indicators in the UK, such as the substantial growth of large contract sales organisations (e.g. United Drug company reports 2009-2011; http://www.ttmc.co.uk/news/42, posted 25th September 2012) and increased numbers of small sales outsourcing consultancies (www.freeindex.com), suggest recent growth in the use of contract sales organisations.

2.1.2 Definitions of outsourcing

Usually in the academic literature, outsourcing is associated with large companies who have historically been vertically integrated (providing support services in-house). Therefore, the user organisation (the client) is transferring property, staff and/or decision rights over a business function to an external organisation (the vendor) (Loh & Venkatraman, 1992). However, outsourcing is a traditional "make-or-buy" decision for all organisations, even start-ups. It means purchasing services from another organisation rather than employing staff to do them "in-house". Kakabadse and Kakabadse (2002a, p. 1) explain: "Outsourcing involves contracting with a third party to provide goods and services to the host organisation that would otherwise have been available in-house".

Espino-Rodriguez and Padrón-Robaina in their 2006 review of the outsourcing literature noted that most authors agree that "outsourcing" means acquiring activities from external companies rather than conducting those activities internally. They argued that because outsourcing modifies the boundaries of the firm, it is a strategic decision. While Sucky (2007) encompassed his definition of outsourcing to include transferring the ownership of traditional and value-adding functions, Quinn and Hilmer (1994) limited outsourcing to acquiring activities which are not part of the firm's core capabilities. Morgan (2003) argued that outsourcing "is an attractive vehicle in a bid to create an agile organisation, but it is not a substitute for creating a coherent strategy for managing resources to optimise strategic performance" (Morgan, 2003, p. 44). However, Gilley and Rasheed (2000) observed that companies sometimes use outsourcing as a means of tactically abstaining from performing an activity in-house.

Anderson and Trinkle's (2005, p. 1) succinct definition: "To outsource a function is to pay someone else to do it for you" will be the guide for this study of the outsourcing of sales activities. Anderson researched sales outsourcing across three decades, and this short definition can encompass all models of sales outsourcing, including strategic, tactical and hybrid.

2.1.3 What gets outsourced?

There are no definite limits to what can be outsourced. 40% of drug development expenditure is committed to contract research organizations (CanBiotech, 2005; Sen & Shiel, 2006), demonstrating that even where intellectual property is being created, outsourcing can be managed effectively. Nevertheless, basic services such as catering, printing, maintenance and cleaning are most likely to be outsourced (Ford *et al*., 1993; Kakabadse & Kakabadse, 2002b). There is a particular focus in academic journals and the trade press on IT outsourcing, which is a huge business (Lacity *et al*., 2008) and the outsourcing of manufacturing (Bengtsson & Dabhilkar, 2009). Facilities management (Simms & Rogers, 2006), logistics (Rafiq & Jaafar, 2007), advertising (Beverland, Farrelly & Woodhatch, 2007) and auditing (Beattie & Fearnley, 1995) are less frequently examined. Kakabadse and Kakabadse (2002b) observed that customer contact is frequently entrusted to outsourcing vendors, and recent trade sources suggest that the outsourcing of call centres is increasing in the UK (Contactbabel, 2011).

There is a theme in practitioner comment that firms should take a strategic overview of their organisation and its processes in deciding which functions to outsource and how much to outsource overall, and they will vary in their approach (Tompkins, 2005). The academic literature offers a choice of theories about the dominant driving force for outsourcing, but also assumes that for different companies, different functions or tasks will be outsourced. (These theories are discussed in subsequent sections of the literature review.) The possibility of complex configurations involving integrating internal capabilities and capabilities bought in from several suppliers has led to a distinct sub-theme in the supply chain literature concerning networks (see table 2).

2.1.4 Integrated networks in supply chains

Table 2: Integrated networks

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Stern & Weitz	1997	Comment	Distribution networks	Importance of supply chain optimisation.
Friedheim	1999	Examples	Competition	"relationship enterprises" – multiple networks.
Wisner	2003	Empirical, 556 firms US and EU	Supply chain performance	Supplier and customer relationship management capabilities are complementary; both need development plus engagement with capable supply chain partners. SCM best practice associated with competitiveness.
Snow *et al.*	2005	Comment	Organisational design theory	Multi-firm collaborative network is the new paradigm.
Baraldi *et al.*	2007	Commentary	IMP approach to supply chain	Firms so reliant on partners that the idea of independent strategy is futile.
Klibi *et al.*	2010	Theory-building	Supply chain networks (SCN)	SCN design involves decisions about collaborating customers but often does not take enough account of uncertainty – risks and hazards, value vs cost, robustness/resilience.

The Industrial Marketing and Purchasing Group posits that firms are so reliant on partners that the idea of independent strategy is futile; what happens to strategic control in supply networks may not be the call of the original designer (Baraldi *et* *al*., 2007). Since the challenge of risk analysis and modelling for hazards, robustness, resilience and responsiveness as well as value creation is not trivial (Klibi *et al*., 2010), it is better done in partnership. When a distribution system is established, it becomes a network of relationships, which also need managing - upstream and downstream (Wheeler, Jones, & Young, 1996; Stern & Weitz, 1997; Wisner, 2003). Global competition in the 21st century has become a matter of positioning between multi-firm collaborative networks (Friedheim, 1999; Snow *et al*., 2005). Nevertheless, while the production and movement of goods undoubtedly has become more interdependent in some sectors, large brands tend to dominate and drive supply networks (Rossetti & Choi, 2005).

The scope of this study does not include supply chain dynamics. It purposefully focuses on situations where stock is not being moved, but on situations where the interface with customers (or some part of it) has been outsourced. It is notable that the literature which addresses business-to-business marketing is referred to as "buyer-seller literature" (Borg & Freitag, 2012) and the focus of analysis, even when discussing collaborative relationships, is between seller and buyer (Athaide & Zhang, 2011). The dyadic nature of the seller-buyer relationship in business-to-business sectors may be a stronger influence on sales managers' perceptions when considering outsourcing, rather than network design. Nevertheless, some studies of the downstream network of companies, also known as marketing channels, share some theoretical constructs with studies of sales outsourcing and are therefore used in this literature review (see table 3).

2.1.5 Marketing channels

"Strategic positioning…requires the performance of different sales activities or the performance of similar sales activities in different ways" (Colletti & Chonko, 1997, p 12).

Designing marketing channels, also known as routes to market or the downstream supply chain, has been claimed as the key element of marketing strategy by Stern and Weitz, (1997) and key to building market share (Hardy & Magrath, 1988). For researchers interested in the sales function, it can be called sales strategy (Novick, 2000), since it is fundamentally about who introduces the customer to the product/service. The central decision for any new venture is to "make-or-buy" the sales activity (Zoltners *et al*., 2006). In delivering products/services to customers, suppliers have a lot of options and the market maps for some goods and services are very complex (Cespedes, 1988). The need for an optimal channel mix in multi-channel strategy has to be addressed with analytical detail (Sharma & Mehrotra, 2007; Rosenbloom, 2007).

Channels need to be analysed, planned and organised. Firms need a proactive channel strategy and salesforce structure, congruent with other elements of the business and marketing plan (Zoltners *et al*., 2008). Success in channel management can be a source of competitive advantage (Mehta *et al*., 2002), and sales managers must have the training to be effective channel managers (Anderson R, 1996). Although some researchers have focused definition of channels on external organisations, channel choices for companies encompass:

- Direct channels, which are in-house salespeople, telesales or Internet portals;
- Indirect channels, where stock may be held, such as wholesalers, dealers and value-added resellers;

- Third party selling arrangements where stock is not held, such as sales agents, manufacturers' representatives, contract sales organisations, freelance salespeople or outsourced telesales.

Indirect and agency channels involve third party organisations, who are often called "channel intermediaries". There are over half a million channel intermediaries in the US. This includes brokers, manufacturers' representatives and sales agents. Indirect channels generally appear to be associated with long-term contractual arrangements, whereas when stock-holding is not an issue, arrangements can be more tactical and short-term.

The choice of whether channels are direct or involve third parties has been linked with both transaction cost economics (Klein, Frazier & Roth, 1990; Neves *et al.* , 2001) and the resource-based view (Wilson & Zhang, 2002; Tuominen, 2004). There are many circumstances where companies need to engage with third party organisations to introduce their product to prospective customers (Anderson & Coughlan, 1987). Channel intermediaries are an opportunity for cost saving and productivity improvements (Narus & Anderson, 1996), but can be used for other strategic purposes such as market entry at low risk (Zoltners *et al*., 2006). Customer choice sometimes requires a variety of channels to be used, driving channel "hybridisation" (Gassenheimer *et al*., 2007) and change (Cespedes, 1988; Magrath & Hardy, 1988; Narus & Anderson, 1996; Staelin, 2008). Channel choices may also be influenced by the nature of particular markets, types of products and environmental factors (Mehta *et al*., 2002).

Once channels are established, manufacturers can become very reluctant to add to them or change them, but proactive management of channels must include frequent redesign (Anderson & Coughlan, 1987; Mehta *et al*., 2002). Good metrics are needed to track the effectiveness and efficiency of channels (Cespedes, 1988; Sharma & Mehrotra, 2007). Sales managers also have to detect and resolve channel conflict (Mehta *et al*., 2002; Gassenheimer *et al*., 2006). Channel conflict may be constructive when market coverage is needed (Webb & Hogan, 2002), but soon reduces performance in mature markets. Channels require careful design and management, and each channel partner needs a clear role.

Wholesalers, dealers and value-added resellers are important players in supply networks and have a place in the supply chain literature. There are some similarities between these players and third party selling arrangements where stock is not held, as manufacturers' relationships with their external representatives can be quite long-term. Nevertheless, the use of sales agents, manufacturers' representatives, contract sales organisations, freelance salespeople or outsourced telesales have more usually been associated with organisational design and the outsourcing of a business process (Rapp, 2009). It is this angle - sales activities as customer-facing processes that may or may not be outsourced - that is adopted in this study, rather than network design. Each sales activity is regarded as a granular transaction. While the whole may add up to a network, the focus of this study is the "make-or-buy" decision per activity.

Table 3: Channels / routes to market – integration / co-ordination

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Cespedes	1988	Case study	Channel management is general management	Complexity in market maps, importance of channel decisions being embedded in business strategy.
Magrath & Hardy	1991	Comment	Distribution network design	Should be driven by markets needs and company strategy.
Anderson R	1996	Comment	Sales management in new millennium	Companies must train sales managers to be channel managers/ manage hybrid salesforce.
Colletti & Chonko	1997	3 case studies of change management in sales	High performance sales organisations	Strategic positioning requires performance of different sales activities, or doing similar in different ways (quote p 12).

Authors	Date	Type of research	Context	Relevant findings
Neves *et al.*	2001	Theory building TCE	Model for channel planning	Asset specificity (core/non-core) relevant to channel design.
Zoltners *et al.*	2006	Comment based on consultancy experience	Sales force strategy	Central decision (for any new venture) is “make-or-buy” (sales).
Sharma & Mehrotra	2007	Empirical; customer database of large software vendor 1990-2005	Need for optimal channel mix	Companies must measure channel level profitability; must also take into account channels that cannot be abandoned. In case, firm decided to increase salesforce and distributor accounts, and shifted some key accounts to regular salesforce.
Staelin	2008	Comment	Channel structure	Need to capture numerous space/competition situations.
Zoltners *et al.*	2008	Comment based on consultancy experience	Salesforce effectiveness	External forces > company strategy > marketing/sales strategy > sales force structure > activities > results.
But there is potential for conflict, which has to be managed				
Webb & Hogan	2002	Empirical, 65 channel managers (4 companies)	Too many channels causing conflict which reduces performance	Constructive when market coverage is needed, destructive in maturity, needs managing.
Gassenheimer *et al.*	2007	Theory-building	Hybrid distribution	Managerial challenge in managing the co-existence of co-operation and competition in channels.
Rosenbloom	2007	Literature review	Multiple channels in business-to-business	Pros but also cons – channel conflict.

2.1.6 The specifics of sales outsourcing

Sales outsourcing has a long history, since independent representatives were the dominant form of distribution and sales in the 19th century (Anderson & Trinkle, 2005) and it has been a common route for small companies to achieve market coverage. Their use in market entry is one of the most long-standing applications (Anderson & Coughlan, 1987; Peng, Zhou & York, 2006). Product launches are also a time when additional flexible sales resource is required (Anderson & Trinkle, 2005; Rogers, 2008). The impact of using contract sales organisations in on-going customer relationships has been briefly explored (Palmatier, Scheer & Steenkamp, 2007). Strategic challenges such as making marketing plans work (Bonoma, 1984), improving the supply chain (Christopher & Ryals, 1999; Wong, Tjosvold, Wong & Liu, 1999), and internal change management (Colletti & Chonko, 1997), invite the consideration of sales outsourcing, but it is an option that is rarely studied in depth (Dishman, 1996; Rogers, 2008; Rapp, 2009).

Effectively, manufacturers' representatives or contract sales organisations are sales agents, though usually not governed by agency law (Novick, 2000). Some US manufacturers' representatives focus on particular industry sectors and have their own association, such as the Manufacturers Agents Association for the Food Service Industry (MAFSI), which has 316 independent manufacturers' representative members in North America, and the National Electrical Manufacturers Representatives Association (NEMRA). Others focus on particular geographies, and others on a particular part of the sales process, such as lead generation, trade show follow-up or merchandising (Feiertag, 2005).

Usually manufacturers' representatives sell for more than one manufacturer per call, but carry a complementary assortment of products (this is described as syndicated selling in the pharmaceutical sector or multi-line selling in manufacturing). In fact, manufacturers' representatives firms can perform the role of category managers for smaller retailers, as they assemble category assortments. The manufacturers' representatives firm is designed to solve problems for their client and the client's customer (e.g. Allegrezza, 2000), but can be seen as middlemen, duplicating effort rather than relieving it (Anderson & Trinkle, 2005). As independent organisations, their clients may perceive that they lose control of the relationship with the customer, hence why the desire to control the salesforce may be a driving force for insourcing it (Turner, 1994).

Contract sales organisations can be part of the supply chain, not necessarily competing with distributors but cooperating with them or working alongside e-channels; they can also be part of a hybrid salesforce, not necessarily competing with direct salespeople, but blended with them, covering distinct customer segments, product categories or geographical territories (Kaufman 1999; Landry & Pandrangi, 2005). Jackson, Widmier,Giacobbe & Keith, (1999) reported that half of all US companies used manufacturers' representatives in some way. It is commonly assumed, according to Dishman (1996) that rep firms are predominantly used by small manufacturers, but the Manufacturers' Representatives' Educational Research Foundation (MRERF) in the USA claims that even global firms such as IBM, Maytag and 3M are making use of contract sales organisations (Kaufman, 1999).

Manufacturers' representatives accounted for 1.83 million sales jobs in the USA in 2010, according to the US Department of Labor. These jobs were spread throughout a variety of industry sectors and across the country. The number of sales jobs in rep firms is expected to grow by 16% between 2010 and 2020. 288,900 new jobs were anticipated, suggesting that sales agents will be handling more clients (http://www.bls.gov). It is evident that sales outsourcing is widespread - 50% of US companies use manufacturers' representatives; but it is also a minority interest - they only account for 11% of wholesale volume (Anderson *et al.*, 2003).

Despite the contribution of the manufacturer's representative sector to economic growth in the USA, the multi-line selling function has been described as one of the least studied and least understood segments in business and academe (Taylor, 1990). Table 4 below lists the main studies in this field. Arguably, all aspects of sales outsourcing are neglected by researchers (Rapp, 2009). One of the possible problems in understanding the phenomenon is a historical focus on all-or-nothing "make-or-buy" (Anderson, 1985; Krafft *et al*., 2004), when many intermediate models are being used (Rogers, 2009). It is distinctly possible that most companies, particularly larger companies, only use them for some products or activities. Therefore, this study will focus on those intermediate states. The outsourcing literature has not overlooked the possibility of partial outsourcing, and the next section examines the findings for it.

Table 4: Sales outsourcing

Authors	Date	Type of research	Context	Relevant findings
Anderson & Schmittlein	1984	Empirical, 145 responses, one industry sector, 16 firms	Why would you employ salespeople?	TCE constructs asset specificity and behavioural uncertainty proven.
Anderson	1985	Empirical, 13 companies	TCE and sales outsourcing	TCE constructs asset spec and behavioural uncertainty proven.
Anderson & Coughlan	1987	Empirical, 94 overseas ops 1955-1975	TCE and export	Asset specificity relevant; and uncertainty of cultural distance of the market.
Powers	1987	Theory-building	Make-or-buy decision in sales	Classical cost/price business case.
John & Weitz	1989	Empirical, 161 firms	TCE within internal sales compensation	TCE is useful framework – most significant element is performance-output difficulty (behavioural uncertainty).
Klein *et al.*	1990	Empirical, 375 companies	TCE in international markets with 4 models	TCE supported; hybrids only weakly distinguished from market exchanges.
Wheeler *et al.*	1996	Quals 14 agents, 14 subsids in UK (machine tools)	Market entry mode	Critique of control approach: TCE explanations not consistently helpful.
Wilson & Zhang	2002	Empirical, 610 firms; UK manufacturing	Does type of manufacture affect sales choice	RBV led approach, but "firm-specific assets" (TCE) most explanatory.
Anderson *et al.*	2003	Theory-building	Examination of the lack of sales outsourcing	Influence of the sales directors/managers' preference.
Ross *et al.*	2005	Comment	Make-or-buy decision in sales	Cost case understated.
Krafft *et al.*	2004	Empirical, 270 sales executives in Germany	Comparing agency theory and TCE	TCE construct asset spec proven.
Rogers	2009	Quals, 12 pharma companies	Use of CSOs	Flexibility is valued more than cost and skill advantages.

2.1.7 Out-tasking

Multi-sourcing (which can also be interpreted as partial outsourcing or out-tasking) has been observed in the outsourcing literature for many years (see table 5 below). Within the overall growth of the outsourcing sector in the past twenty years, there is an increasing trend for smaller, shorter deals (Lacity *et al*., 2008). This does not sit well with the assumptions of transaction cost economics, where market contracting and internal hierarchy are polar opposites with "hybrid" governance in between (Williamson, 1991). Hybrid governance is not, for Williamson (1991) "an amalgam of market and hierarchy, but possesses its own disciplined rationale" (p. 294), such as franchising, in which credible commitments are made.

Rindfleisch and Heide (1997) criticise transaction cost economics for ignoring how plural governance forms can be combined. It is the question of how small a transaction might be that creates mixes of contracting types in one function. Transactions range from frequent purchases of standard, non-strategic items to constructing a factory (Williamson, 1979). In sales management, the cost per sales call, estimated to range upwards from US$150 (Krafft *et al*., 2004), is a frequent point of reference, but there are other activities in the sales process, and many that vary according to the product or customer type. Like Anderson in 1985, Krafft *et al.* (2004) examined all-or-nothing scenarios in sales outsourcing, i.e. the outsourcing of the whole sales function in a company or division, and ignored hybrid or granulated models. This excluded a lot of workable partial outsourcing scenarios from their findings.

Different choices of outsourcing models result in different risk management challenges, and thus the need for different relationship management (Sanders, Locke, Moore & Autry, 2007). Higher risks are not necessarily eschewed because there is the potential for higher reward. It has been argued that total service outsourcing enables companies to focus on their core business (Hancock & Oates, 2001). An extensive empirical study of over 14,000 UK firms involved in the Annual Census of Production 1980-1992 found that outsourcing intensity within firms was linked positively to their productivity (Girma & Görg, 2004).

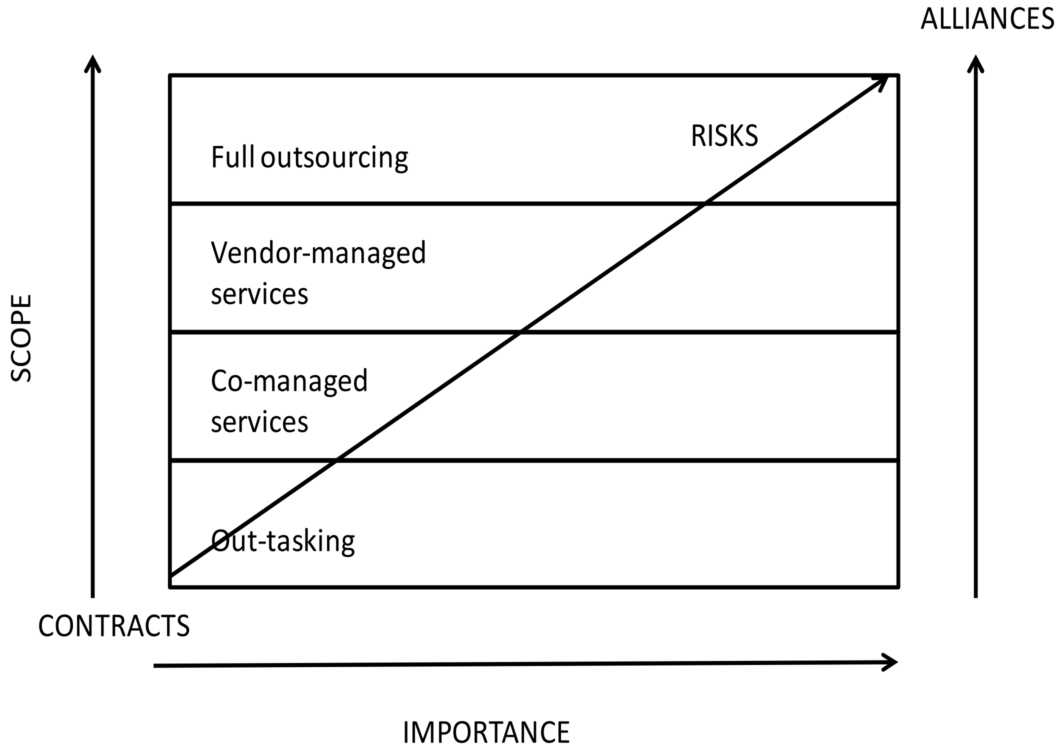

Figure 2: Outsourcing models

Adapted from Sanders *et al.*, 2007

Concerns have been raised that wholesale outsourcing introduces excessive risk (Raiborn *et al*., 2009). Sanders *et al.* (2007) urged managers not to “fall prey to the apparent momentum of the outsourcing movement” (p. 13) and maintain a flexible and dynamic approach to sourcing strategy. In contracting, there is always the issue of incongruent goals (Eisenhardt, 1989). Dual distribution or multi-sourcing can be used to avoid “lock-in” to a powerful supplier (Dutta *et al*., 1995). Smaller scale empirical studies suggest that outsourcing selectively has the best association with performance (Rothaermel *et al*., 2006; Martinez-Sánchez *et al*., 2007). Notably Rothaermel *et al.* (2006) find support for a balance between internal integration and outsourcing of value chain activities (called taper integration), as pursuing either in isolation produces sub-optimal performance. The balance needs to vary over time to respond to the business and competitive environment. Alvarez and Stenbacka (2007) proposed a model for thresholds of partial outsourcing driven by market uncertainty, but noted other variables such as cost and control. The degree of outsourcing that a firm can adopt may also have to accommodate supply market constraints, as it has been found that the desire to outsource is often greater than actual outsourcing (Espíno-Rodriguez & Padrón-Robaina, 2005).

The degree to which companies outsource can be very variable (Gilley & Rasheed, 2000; Sanders *et al*., 2007; Martinez-Sánchez *et al*., 2007); even in IT, Oh (2005) found average outsourcing intensity of only 17%. Facilities management is also rarely outsourced in full (Kleeman, 1994). Krishnamurthy *et al*. (2009) encompassed the variety of contracting arrangements they found within information systems management as “out-tasking”. Based on discussions with fifty of Cisco’s top customers, they theorised that the old model of full-function IT outsourcing results in lock-in for client and stagnation for vendor. Out-tasking “breaks the cycle of negative compromises associated with traditional outsourcing approaches” (p. 47).

Since transactions (or activities) vary in terms of frequency, uncertainty, and the degree of asset specificity involved (Williamson, 1979; 1991), managers need to de-construct functions into small parts to optimise what is outsourced and what is insourced, in order to minimise risk and improve performance. This process was observed in case studies by Aron *et al*. (2005) and described as “strategic chunkification” (p. 38). They observed and advocated both vertical chunkification (the distribution of activities between client and vendor/s) and horizontal chunkification (sub-division of an activity between client and vendor/s). They argued that this approach to outsourcing reduces risk and enables the client to control performance and costs. It should be noted that outsourcing does not necessarily occur on a continuum between “make-or-buy” - Parmigiani (2007) found that concurrent sourcing (internal and external to the firm) was a distinct choice.

Of course, this introduces the issue of the complexity of monitoring partial outsourcing. Selective outsourcing might be associated with better performance in theory (Embleton & Wright, 1998; Mantel *et al*., 2006) and practice (Rothaermel *et al*., 2006; Martinez-Sánchez *et al*., 2007) but it can be very complex to track total cost of ownership and return on investment, which makes it difficult to design the most profitable service portfolio (vom Brocke & Lindner, 2004). Porter (1996) warns against the granularisation of tasks to outsource on the grounds that strategic fit for activities is fundamental to competitive advantage. McIvor (2000) noted, in a case study of a large firm, a tendency to outsource problem activities rather than activities positively identified as suitable. Nevertheless, some companies are clearly able to integrate outsourced and insourced activities in innovative and competitive ways, either by detailed contract management (Mayer & Salomon, 2006) or proactive relationship management with vendors (Handley & Benton, 2009). King (2006) observed that firm boundaries evolve, therefore firms needs to be proficient in multiple sourcing methods and willing to switch. Indeed, all the benefits of cost management, control, flexibility and innovation have been attributed to out-tasking (Krishnamurthy *et al*., 2009). At a very detailed level, companies can outsource tasks to “contingency employees” (Hitt *et al.,* 1998, p. 29) who form over 25% of the US workforce and are usually provided by specialist agencies.

An example of the granular approach to outsourcing is provided by Watjatrakul and Drennan (2005) in an examination of e-mail marketing, itself a limited activity within a broader portfolio that a marketing manager might be expected to co-ordinate. In three case studies, the companies’ approach to each step in the process, i.e. designing, building, testing, deploying, tracking, reporting and analyzing, was tracked over six months. They found that companies considered outsourcing options for each step rather than the combined activity, and that the asset value of the whole activity emerged from its components. This detailed approach seems to be appropriate for a study of the sales function, where outsourcing of particular process steps, product categories and market segments has been observed (Rogers, 2009).

In the case of the sales function, it has been posited that a mix of internal and external resources can be used successfully (Dishman, 1996; Landry & Pandrangi, 2005; Rogers, 2009). Dishman (1996) argued that the task-based approach to using contract sales organisations (e.g. on new territories or product introduction) is speculative rather than positive, whilst Landry and Pandrangi (2005) suggest that each company has a different optimal sales force mix. Rogers (2009) described some models used in the pharmaceutical sector in the UK:

- syndicated sales, where the rep details different companies' products in a single call,
- contract sales teams dedicated to particular clients, by product line or customer segment,
- vacancy management (where contract staff are effectively "temps").

Granularity may be considerably important in make, buy or mix resourcing decisions for sales managers.

Table 5: Propensity to outsource

Authors	Date	Type of research	Context	Relevant findings
Dutta *et al.*	1995	Empirical; Sample of 199 manufacturers reps	TCE and dual distribution	Dual distribution used to avoid "lock-in".
Gilley & Rasheed	2000	Empirical; 31 large firms	Outsourcing performance	Firms more or less inclined to outsource; may outsource in parts.
Girma & Görg	2004	Empirical; 14,000+ firms involved in Annual Census of Production UK 1980-1992	Outsourcing and productivity	Outsourcing "intensity" positively related to productivity.
Oh	2005	Empirical; Secondary data on 169 firms	Intensity of IT outsourcing	Average outsourcing intensity 17%.
Espino-Rodriguez & Padrón -Robaina	2005	Empirical; 50 hotels in Canary islands	Outsourcing	Desire to outsource may be greater than actual outsourcing.
Mantel *et al.*	2006	Theory building	Make-or-buy	It need not be a binary decision; %age insourced/outsourced can vary.
Sanders *et al.*	2007	Quals with 19 managers; theory building	Categorising outsourcing	A variety of levels of outsourcing can be observed.
Parmigiani	2007	Empirical; 193 small firms in manufacturing	Why do firms make and buy	Concurrent sourcing is distinct choice from make/buy. Propensity of outsource affected by behavioural uncertainty.
Martinez-Sanchez *et al.*	2007	Empirical; 156 Spanish companies	Intensity of outsourcing (RBV view)	Outsourcing just peripheral activities has better association performance from outsourcing.

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Quest for the right balance of outsourcing/insourcing:				
Embleton & Wright	1998	Theory building	Contracting out and outsourcing are different things	Combination of insourcing, outsourcing and contracting out may be optimal.
vom Brocke & Lindner	2004	Theory building	SOA as means of out-tasking and co-ordinating IS processes	Suggests framework for tracking TCO and ROI; points out challenge in designing the most profitable service portfolio design.
Aron *et al.*	2005	Comment based on case studies	Outsourcing performance	Advocates "strategic chunkification" of processes into activities that can be outsourced, as opposed to outsourcing entire function.
King	2006	Theory building based on a supply chain case study	Outsourcing in uncertainty	Firms need to be proficient in multiple sourcing methods and willing to switch.
Rothaermel *et al*.	2006	Empirical; 3,500 product introductions	Balancing vertical integration and outsourcing	Careful balance helps to achieve superior performance.
Raiborn *et al*.	2009	Comment	Outsourcing support functions	Wholesale outsourcing introduces excessive risk.
Krishnamurthy *et al.*	2009	Theory building based on case of Cisco and their top 50 customers	A better model than wholesale outsourcing	Strategic out-tasking delivers more control to the "principal"; enables flexibility and innovation.

Authors	Date	Type of research	Context	Relevant findings
And this is true for sales as well:				
Anderson & Schmittlein	1984	Comment in empirical study	Sales outsourcing	Use of reps widespread, but %age volume through reps limited. Market mode much less common than integrated.
Dishman	1996	Theory-building	Sales outsourcing	Two approaches – positive (100%) use of CSOs and speculative (task-based).
Landry & Pandrangi	2005	Opinion (based on consultancy)	Sales outsourcing	There is an optimal sales force mix – different per company.
Rogers	2009	Exploratory: 12 pharma firms in UK	Sales outsourcing	The challenge in larger firms is getting the right balance.
How granular can outsourcing be?				
Kleeman	1994	Market survey, US	Out-tasking in FM	FM rarely outsourced in full, but broken up into 13 sub-functions.
Watjatrakul & Drennan	2005	3 case studies at process step level in email marketing	TCE test	Finds for relevance of asset specificity at process step level.

2.1.8 Summary

This section has outlined the recent surge in outsourcing as a popular organisational design choice, and explains the context for this study. The role of transaction cost economics (control), resource-based view (competence) and real options theory (flexibility) as antecedents to outsourcing have been introduced. The limited discussion of sales outsourcing in the marketing literature aligns sales outsourcing with the major theoretical schools. However, since the extant literature has focused on wholesale outsourcing or insourcing of sales, any primary research in this field should explore beyond their scope. The concept of partial outsourcing, or out-tasking, is an alternative to full scale outsourcing, and a granular approach to the activities that may be insourced, outsourced or dual-sourced needs to be considered in the primary research. Each granular decision may be prompted by different antecedents.

The next three sections explore in detail the theories concerning the antecedents of outsourcing, examining their constructs and their applicability to the outsourcing of sales activities.

2.2 Theoretical schools addressing the design of organisational boundaries

2.2.1 Transaction cost economics

A substantial body of literature suggests that cost implications are dominant considerations in organisational design decisions. A list of key studies is provided at the end of this section. Whether an activity is insourced or outsourced, there will be costs involved in managing it over time, as well as the immediate costs of "make-or-buy". The cost of managing an activity over time has been defined as "transaction cost" and has attracted a great deal of academic attention across all business disciplines. This section critiques the theory associated with transaction cost, comparing it both with agency theory and co-operation theory.

2.2.1.1 Transaction cost economics and the cost of governance

"Transaction cost theory has become the predominant theoretical framework for explaining organizational boundary decisions." (Geyskens *et al.,* 2006, p. 519)

Transaction cost economics differs from a traditional emphasis on prices and output by focusing on governance (Williamson & Ghani, 2012). There is a very clear agreement between practitioners (Forst, 1999; Biederman, 2005) and theorists from both the transaction cost economics approach (Williamson, 1975) and agency theory approach (Eisenhardt, 1989) that there are outsourcing hazards inherent in the bounded rationality of decision-making and the incongruent goals of principal and vendor. In line with transaction cost theory, these hidden costs can be described as the cost of control – the cost of managing employees versus the cost of managing third parties. TCE focuses on "the lens of contract", i.e. the costs of getting a task (transaction) done (Williamson, 2005b, p. 1). Specifically, transaction costs reflect the time involved in “finding, negotiating, and monitoring the actions of potential partners” (Brettel, Engelen & Müller, 2011, p. 43).

Originally designed to determine whether or not firms should exist at all (Coase, 1937), TCE has been extensively applied to determining the boundaries between the firm, the market, and hybrid forms of organisation in between (Williamson, 1991). It has broad appeal because it can be applied to a wide variety of activities in almost any type of organisation. Meta-analyses of TCE have found broad empirical support for TCE (David & Han, 2004; Carter & Hodgson, 2006; Macher & Richman, 2008) and some find strong support for its predictions concerning the need to minimise behavioural uncertainty, characterised by the difficulty of aligning outcomes with effort (Rindfleisch & Heide, 1997; Geyskens *et al*., 2006). Key studies of sales outsourcing or vertical integration of channels (Anderson, 1985; Brettel *et al*., 2011; Dutta *et al*., 1995; John & Weitz, 1988; Krafft *et al*., 2004; Majumdar & Ramaswamy, 1994; Rangan, Corey & Cespedes, 1993; Shervani, Frazier & Challagalla, 2007) have examined the “make-or-buy” decision in sales from a transaction cost point of view.

TCE generates substantial interest among researchers, including recent literature – Business Source Premier listed 61 scholarly articles with “transaction cost economics” in the abstract between January 2011 and June 2012. In 2005, Williamson observed that Coase’s citations grew 2.4 times between 1981-1985 and 1996-2000, and his own grew by a multiple of 4.2. The highest proportion of citations in 1996-2000 occurred in the business literature (Williamson, 2005a). These TCE studies provide a useful framework for examining the control issues associated with external contracting. However, there are two scenarios that are not always accommodated by TCE. Co-operation theory creates the possibility of minimising the governance costs of working with third parties through adopting a long-term relational management approach. Also, as is observed in agency theory, incongruent goals may also occur in internal relationships.

It is clearly important for a research study concerned with sales outsourcing to explore the issue of control from the broadly supported theoretical standpoint of TCE. Nevertheless, although Coase (1988) claims to have always believed that "suppliers are not hostile and employees are not docile" (p. 31), TCE seems to over-emphasize the threat of opportunism from suppliers (Ghoshal, 2005) and under-emphasize the potential for opportunism from employees (as observed in Jelinek & Ahearne, 2006).

2.2.1.2 Assumptions about the hidden costs of control

Williamson (1988; 1991) argued that the main challenge of the firm is adaptation, so governance structures must evolve as the business environment changes. Although vertical integration has its limitations in terms of efficiency, since contracts cannot cover every future possibility to which a company may need to adapt, vertical integration should improve adaptability (Williamson, 1991). Concerns about opportunism, lock-in and other contractual hazards have been used to explain why, despite its surge in the 1990s, outsourcing often failed to deliver performance improvements (Bahli & Rivard, 2003).

There is an assumption in TCE that employees are directly controlled, and therefore more adaptable than agents who are free to carry out tasks in their own way (Coase, 1937). In today's business environment, while it might be assumed that an individual worker can be sacked more easily than a whole firm (Hart & Moore, 1990), employment law in Europe presents considerable difficulties to a employer who believes that an employee has broken their contract (Moules, 2008). Agency theory, which is associated with contract law and is often examined in tandem with TCE, shares many of its assumptions. However, in contrast with TCE, agency theory recognises that employees, including directors of firms, can act like agents with goals incongruous to those of shareholders (Fama & Jensen, 1983).

Table 6: Key assumptions of transaction cost economics (and agency theory)

Key idea	Principal-agent relationships should reflect efficient organisation of information and risk-bearing costs.
Unit of analysis	Contract between principal and agent.
Assumptions about individuals	They act in self-interest. They have bounded rationality. They are risk averse.
Assumptions about organisations	Their goals conflict. Efficiency is the key criterion. Principal and agent will have different information.
Contracting problems	Moral hazard (shirking and guile) Lock-in.
Problem domain	Principal and agent have different goals and risk preferences.

Adapted from Eisenhardt, 1989.

The key assumptions underpinning TCE (which are also evident in agency theory and contract law) include bounded rationality (leading to incomplete contracts) and incongruous goals leading to opportunism (Williamson, 1975; Eisenhardt, 1989) (see table 6 above). It is regarded as inevitable that a contracted third party will pursue their own interests and therefore, if it is difficult to link performance to contract outcomes, the principal to the contract will not get value for money. Opportunism may be passive (shirking) or active (guile) (Wathne & Heide, 2000). It is feasible that opportunistic behaviour can be provoked by perceptions of unjust terms (Husted & Folger, 2004), and it should also be noted that principals can act opportunistically towards their agents (Rossetti & Choi, 2005). However, from the point of view of the managers considering "make-or-buy", it is the behaviour of the agent that will be of most concern.

Indeed, studies undertaken to test transaction cost economics have also been criticised for using perceptual indicators for transaction costs, rather than evidence

(Grover & Malhotra, 2003). For example, managers may perceive that the cause and effect between activity and outcome for a particular task is difficult to measure, leading to a preference for insourcing, but few studies attempt to actually measure the monitoring overhead and whether it is greater when a contractor carries it out rather than an employee.

TCE assumes that contract terms can preclude hazards, but even contract law sometimes recognises the imperative for co-operation between principal and agent in a contract. In the case of Powergen v Vertex (2006), Vertex, who had been providing outsourced customer service for Powergen, tried to sue for "specific performance", a discretionary remedy in cases of breach of contract, when the relationship broke down. The court would not compel the client to continue with the vendor, on grounds that the contract required mutual co-operation for it to be effective (Nettleton & Hill, 2007). Of course, the costs of going to court when a business relationship fails are transaction costs that TCE predicts.

2.2.1.3 Deconstructing the conceptual model of TCE

Transaction cost economics endeavours to be a comprehensive explanation of the boundaries of the firm. It claims five factors as predictors of transaction cost levels and therefore degree of channel integration:

Table 7: Predictors of transaction cost levels

Transaction specific assets	If investments are needed, such as extensive training, marketing channels will be integrated.
Technological uncertainty Market-related uncertainty (Sometimes combined as “business uncertainty”)	If technology change is frequent, marketing channels will be integrated.
	If the market is volatile, marketing channels will be integrated.
Internal uncertainty (Also referred to as “behavioural uncertainty”)	If it is difficult to monitor performance, marketing channels will be integrated.
Transaction frequency	The larger the firm, the easier it is to absorb administrative overhead, therefore marketing channels will be integrated.

Adapted from Brettel *et al*., 2011.

For the purposes of this literature review, the TCE concept of asset specificity is examined alongside the concept of “core competence” or skills in the resource-based view (2.2.2). Carter and Hodgson (2006) argued that human asset specificity (which, according to Anderson (1985) is the only facet of asset specificity present in sales) could be reinterpreted as the resource-based view and recommend it should be a separate construct aligned with competency.

Technological uncertainty and market uncertainty, sometimes combined in the literature as “business uncertainty” or “environmental uncertainty”, are considered in the section on real options (2.2.3). In Anderson’s (1985) seminal work, findings on its predictive value were mixed. Some recent studies, some of which have actually taken place in uncertain conditions (Díez-Vial, 2007; Martinez-Sánchez *et al*., 2007; Miranda & Kim, 2006; Rogers 2009; Li, Boulding & Staelin, 2010), suggest that business uncertainty is a predictor of more outsourcing rather than less, as managers will not make long-term cost commitments such as permanent employment in uncertain conditions.

Transaction frequency/company size was not found to be significant in Anderson's (1985) examination of the sales function, was not found to have predictive power even in the case of new ventures (Brettel *et al*., 2011) and has been largely overlooked by meta-analyses of TCE. Therefore it is not examined any further in this review.

What is discussed here as the strongest contribution of transaction cost economics to understanding why sales resource might be internalised rather than outsourced is the concept of "internal uncertainty", also called in the literature "behavioural uncertainty". It is not without its critics, but Anderson (1985), whose work has been acknowledged by Williamson and Ghani (2012) as most influential in applying TCE to marketing issues, found that the strongest effect in predicting internal or outsourced salesforce is difficulty in evaluating performance. It was stronger than any of the indicators of transaction specificity. This was reinforced by Krafft *et al*. in 2004; it was also the strongest indicator of vertical integration of channels in a large sample, cross-industry study by Majumdar and Ramaswamy (1994) and it has broad support in major meta-analyses (David & Han, 2004; Geyskens *et al*., 2006; Macher & Richman, 2008; Rindfleisch & Heide, 1997). The following sub-sections focus on the behavioural uncertainty concept, which is strongly tied to TCE's expectation of opportunism.

2.2.1.4 Behavioural uncertainty – where performance is difficult to measure

"The challenge of ascertaining ex post whether transaction partners have complied with contracts" (Brettel *et al*., 2011, p. 46).

There is evidence that performance ambiguity leading to behavioural uncertainty does lead to control problems and hidden costs in outsourcing (Rindfleisch & Heide, 1997). Outsourcing risks include being locked-in by transferring control of a function to a single supplier, costly contractual amendments, unexpected management costs and disputes leading to litigation (Bahli & Rivard, 2003). Bureaucracy is deemed necessary where performance ambiguity is high (Ouchi, 1980). Usually, the indicator chosen to measure for behavioural uncertainty in the sales function is difficulty in measuring performance (e.g. Anderson, 1985). This is also common in studies of commission versus salary in internal sales; Krafft *et al.* (2004) finding a direct relationship and Rouziès, Coughlan, Anderson and Iacobucci (2009) observing it as an indirect cause of a higher proportion of salary to variable pay. In an early empirical study, Anderson and Schmittlein (1984) found that uncertainty was directly and strongly associated with in-house integration, and that the most significant indicator of uncertainty was difficulty in measuring performance.

There is specific empirical support for the argument for employment where the performance of a contract is difficult to measure (Mayer & Salomon, 2006). Mullin (1996) suggests that one year into a multi-year contract it is virtually impossible to measure the vendor's performance against original expectations. In any event, although contracts are always signed, they are rarely referred to thereafter (Roxenhall & Ghauri, 2004). It appears that mismatches between contractual performance and expectations can lead to the deterioration of relationships between principal and agent over time, as critical incidents accumulate and lead to relationship stress (Holmlund-Rytkönen & Strandvik, 2005; Halldórsson & Skjøtt-Larsen, 2006). The mature stage of a contract is never better than the build-up stage, as both parties lose momentum (Jap & Anderson, 2007). Perceptions of strategic vulnerability are more important to managers than access to the competences of suppliers (Mantel *et al.*, 2006). If relationship quality deteriorates, outsourcing contracts are likely to be terminated and those functions are then brought back in-house (Whitten & Leidner, 2006). In mitigation, highly formalised relationships with common long-term performance measures and shared monitoring and measurement information can reduce the risk of deterioration (Daugherty, Richey, Roath, Min & Chen, 2006). The ability to manage contracts through hazards by relational exchange is highly relevant to success (Brown, Dev & Lee, 2000; Mayer & Salomon, 2006). Relationship management capability will be discussed later as a factor that may moderate concerns about control.

2.2.1.5 Agent opportunism is not always the norm

TCE assumes that humans act in their own interest, and are willing to pursue those interests without ethical constraint. Bahli and Rivard (2003) take the view that TCE assumes not only self-interest, but also that people involved in forging contracts between firms will demonstrate "guile", such as over-stating their capabilities. Supplier opportunism will be expected to reduce the effectiveness performance of the buying firm. This assumption has been widely challenged.

Robbins (1947) notes that, in contrast to other means of acquiring things, trade is unique in that it is *two-way*. It can be described as "a cooperative organisation in communications to achieve economic ends" (p. 230). Assumptions about goal conflict may seem reasonable in advance of a contract, but perhaps assumptions could equally well be made about co-operation. Collaborative approaches to business relationships provide an alternative to adversarial contracts.

The potential for collaborative relationships is often associated with the rise of Japanese-style supply chain management in the 1980s. Dyer (1997) noted that GM's procurement transaction costs were six times those of Toyota because suppliers saw them as less trustworthy. In Asia, enduring enterprise groups and networks are common because the collectivist culture emphasises obligation to one's "ingroup" (Chen, Peng & Saparito, 2002). Even in individualistic cultures, such as North America and Northern Europe, fairness and common purpose are possible, and most economic transactions are, in fact, underpinned by trust (Lunn, 2009). Williamson and Ghani (2012) are sceptical about the use of “trust” in business relationships, arguing that what matters is the exchange of credible commitments. “Trust” involves both credibility and benevolence (Flaherty & Pappas, 2000).

There are other contextual variations to consider. There is more tolerance of opportunism in some business sectors in the UK than others (Grant, 2007). Where business sectors and supply chains exert some kind of social control, opportunism is less likely. A firm’s reputation is an important factor in signalling trustworthiness (Pillai & Sharma, 2003). Partnering organisations form expectations about how a potential partner will behave in the future based on the firm’s “standing”, or reputation, in its industry as indicated by references from customers or other stakeholders, and whether they have won awards. A company’s commitment to its reputation and on-going development of communications skills is useful in volatile markets (Perks & Halliday, 2003). Some supply chains are closely interdependent (Eisenhardt, 1989). In terms of achieving strategic objectives, there is widespread recognition that a coalition of companies can be an effective unit of competition (Hamel & Prahalad, 1994; Dyer & Singh, 1998).

Goal congruence can be established up front and help business relationships to recover when problems arise (Jap & Anderson, 2003). In particular, third party salespeople do identify with the brands they represent and work harder for the brands with which they feel the strongest link (Hughes & Ahearne, 2010). Brand owners should invest in “capturing reseller salesperson share of mind” (Hughes & Ahearne, 2010, p. 82). Even Williamson (1991) observed that hybrid organisation forms with relational governance can exist in between market exchange and vertical integration.

The establishment of good citizenship “norms” of openness commitment and sharing of problem solving and idea generation can be as important as a statement of work, and contact and communications plans (Morgan, 2003). As goal conflict decreases, there is more likelihood of risk-sharing, which would suggest a different approach to contracting. Some principals are very risk averse and it is attractive to pass risk to the agent (Eisenhardt, 1989). The downside of assuming congruent goals is that it can lead to "groupthink" or the risk of hidden co-operative goals (Faulkner & de Rond, 2000). Firms should also beware that a spirit of co-operation at a senior level cannot make up for broken processes in mission-critical activities (Kern & Willcocks, 2000).

Although assumptions of co-operation may accrue risk, there are empirical, dyadic studies in which interorganisational trust is observed as the over-riding driver of exchange performance. It reduces the costs of negotiations, the incidence of conflict, and creates a climate in which transaction value can be enhanced (Zaheer, McEvily & Perrone, 1998; Judge & Dooley, 2006). A meta-analysis of the effect of co-operation on productivity studies found that co-operation induced higher productivity than competition or individualistic approaches. Co-operation is particularly useful in achieving complex tasks (Tjosvold, 1984). Relational rents, i.e. supernormal profits generated in a business relationship that neither firm could generate alone, can deliver mutual value to all parties to co-operative business relationships (Dyer & Singh, 1998). Some empirical studies indicate that performance is enhanced through proactive relationship management (Brown *et al.,* 2000; Handley & Benton, 2009). It is significant that small companies in the UK that have inter-firm partnerships grow faster than those that do not (Wynarczyk & Watson, 2005).

From these studies, it is clear that TCE's assumption that governance structures must be built to control opportunism where performance is ambiguous may make those structures inefficient (Ryals & Humphries, 2010). As Moscheandras (1997) noted, non-opportunists' behaviour may even be adversely affected by the assumption of opportunism, resulting in lower productivity.

Although transaction cost theory allows for relational and hybrid contracts, it does not seem to account for the importance of trust and commitment, or any aspects of inter-firm relationships that are not enshrined in the contract (Rindfleisch & Heide, 1997). TCE assumes that perceptions of fairness are irrelevant, but governance design will only be successful if it is perceived to be fair (Husted & Folger, 2004). This means that TCE is not necessarily a good predictor of eventual success or failure over time (Faulkner & de Rond, 2000).

2.2.1.6 Employee compliance is also not always the norm

In his 1988 article, Coase stated that he had always believed that "employees are not docile", but that "integration creates a different institutional setting" (p. 31). However, why should workers submit to subordination in employment? A Marxist analysis of vertical integration suggests that workers sacrifice considerable personal freedom for the social insurance that some employment contracts seem to offer (Linder & Zacharias, 1993). Employees might not always be the most adaptable resource option. Anderson (1988) questioned whether opportunism is a concern only where an outside organisation is contracted to sell. While integration may reduce opportunism, employment is not complete slavery (Hart & Moore, 1990). Although it is of less concern to transaction cost economists, to agency theorists employees may be internal agents with all the management challenges of external contractors. Even within organisations, individuals' goals are only partly congruent with their employer (Ouchi, 1979), and incumbents tend to defend the *status quo* when change is proposed (Sliwka, 2007). Employees also need supervision, but firms' returns decrease with the inefficiencies of centralised control. Too much monitoring can provoke opportunism as much as too little (Moshcheandras, 1997; Heide, Wathne & Rokkan, 2007).

Internal resistance to change is perhaps inevitable, as some employees stand to lose from change and others may believe strongly in the way things are done at the moment and see change as an offence to those values (Hambrick & Cannella, 1989). Insecurity may be fuelled by management uncertainty, aversion to new tasks, fear of redundancy, fear of being incompetent at the new tasks, fear of losing face and being unwilling or unable to learn new skills. Add to that the organisational factors such as reduced rewards, loss of influence over decisions, loss of control over resources and loss of prestige, and you have a powerful recipe for resistance (Ansoff, 1987). Contractual safeguards are needed to ensure that employees do adapt. However, employers may find it difficult to challenge workers with firm-specific skills who are difficult to replace (Battu, McMaster & White, 2002).

Advocates of TCE make a number of assumptions about the properties of internally organised functions. They assume that managers have more power and control over internal activity through monitoring and being able to reward behaviour as well as output. TCE also assumes that being able to offer long-term rewards such as promotion prospects, and socialisation into company “culture” will diminish opportunistic behaviour. Therefore, detecting opportunism and facilitating adaptation should be easier within the firm, but it is not always so (Rindfleisch & Heide, 1997).

Employees can even be a reason for outsourcing. In culturally “political” councils, where internal opportunism might be a concern due to different views and interests, concern about external opportunism was insignificant in outsourcing decisions (Miranda & Kim, 2006). Internal departments may not even be given the opportunity to bid for contracts on the same terms as external suppliers where they are considered problematic (Fan, 2000). Outsourcing has been used as a means of avoiding trade unions and pay bargaining in the UK public sector (Kerr & Radford, 1994) and the US manufacturing sector (Whitford & Zeitlin, 2004).

Such situations arise when employees indulge in activities to preserve their own interests (Noble, 1999). These include protecting their power base, but delaying the implementation of change is predominant. Active or passive resistance to adaptation results in employees appropriating economic rents, and therefore companies cannot return all the rent they generate to shareholders (Coff, 1999). Knowledge-based assets, such as highly skilled salespeople, promise the firm specificity and causal ambiguity that make them resources that are difficult to replace. The people who generate rent are likely therefore to have the bargaining power to appropriate it. Internal stakeholders have power when they can act together, have access to key information and are costly to replace, but do not face switching costs themselves if they join another firm (Coff, 1999).

Table 8: Transaction cost economics and the predictive value of "behavioural uncertainty"

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
The argument for employment where the performance of a contract is difficult to measure is strong.				
Coase	1937	Theory-building	Why do firms exist?	Opportunism is a real and present danger in market contracts; because contracts cannot cover every future possibility, employment should be more controllable and adaptable.
Ouchi	1980	Theory building	Organisational control	Bureaucracy necessary where performance ambiguity is high.
Williamson	1991, 2002, 2003, 2005b	Comment	Contract	Contract is the means to ensure gains are realised and conflict is minimised in an ordered way.
Wathne & Heide	2000	Theory building	Opportunism	May be passive (shirking) or active (guile), and it may be wise to tolerate a certain amount.
Bahli & Rivard	2003	Theory building	Outsourcing risk (IT)	OS risks include lock-in, costly contractual amendments, unexpected management costs and disputes/litigation; TCE offers mitigation approaches.
Husted & Folger	2004	Theory building	Org justice and TCE	If governance mechanism is considered unjust, it will create transaction costs.

Authors	Date	Type of research	Context	Relevant findings
The argument for employment where the performance of a contract is difficult to measure is supported by meta-analyses:				
Rindfleisch & Heide	1997	Meta-analysis of 45 articles, 1982-1996	Applications of TCE in marketing	Broad support for behavioural uncertainty.
David & Han	2004	Quants Meta-analysis, 308 tests from 63 articles	Validity of TCE across a variety of applications	Broad support.
Geyskens *et al.*	2006	Quants meta-analysis, 200 articles 1975-2003	TCE and make-buy-ally	Strong support and it leads to enhanced performance as well.
Macher & Richman	2008	Meta analysis across the social sciences	TCE empirical studies	Broad support.
From different angles, the argument for employment where the performance of a contract is difficult to measure is supported by empirical findings – especially the deterioration of contract relations over time				
Holmlund-Rytkönen & Strandvik	2005	Quals: 2 case studies	Relationship stress	Cumulative negative critical incidents lead to relationship stress.
Mantel *et al.*	2006	Empirical; scenarios with 302 respondents	Behavioural factors in "make-or-buy"	Perception of strategic vulnerability has greater influence than competency considerations.
Mayer & Salomon	2006	Empirical; 405 service contracts	Contractual hazards	Contractual hazards lead to insourcing. Ability to manage hazards can help, but where it is difficult to observe quality, risks still high.
Halldórsson & Skjøtt-Larsen	2006	Case study	Outsourcing over time	Changes over time caused relationship to deteriorate from trust to conflict.
Whitten & Leidner	2006	Empirical; 160 IT managers	Backsourcing or switching	Poor relationship quality indicator of switch (product/service also has to be bad for backsource).
Jap & Anderson	2007	Empirical; 1,660 resellers	Relationship cycles	Maturity is never better than build-up phase; both parties lose momentum.

Authors	Date	Type of research	Context	Relevant findings
Not all of the assumptions of behavioural uncertainty are supported:				
Mayo *et al.*	1998	Empirical; 2 studies of 300+ beer wholesalers	Satisfaction in channels	Non-coercive power tactics, such as rewards, most successful; coercive and influence less so.
Brown *et al.*	2000	395 hotel managers	Governance mechanisms	Managers should focus effort on effective relational exchange – only this governance mechanism limits opportunism.
Jap & Anderson	2003	Empirical; 300 buyers and sellers; longitudinal	Ex-post opportunism	Opportunism arises. When things are bad, *goal congruence* can ensure recovery.
Wynarczyk & Watson	2005	Empirical; 211 UK subcontractors	Growth and supply chain partnerships	SME firms with inter-firm partnership grow faster than others. Opportunism less of a cost than complete contracting and resorting to law.
Rossetti & Choi	2005	Case study - aerospace	Strategic sourcing	Principals can be just as opportunistic as agents.
Nettleton & Hill	2007	Legal case study	Outsourcing of customer care – no remedy for agent failure?	Court refused to compel principal to fulfil contract on grounds that it required mutual co-operation to be effective.
Grant	2007	33 supply chain partnership cases	Opportunism in co-operative exchange	There is more tolerance of opportunism in some sectors than others – so in some sectors it is less likely to happen (social control).
Heide *et al.*	2007	Empirical; 105 responses; longitudinal	Interfirm monitoring	Monitoring can *both increase and decrease* opportunism; decrease likely if backed up by "social contract".

Authors	Date	Type of research	Context	Relevant findings
The assumption of opportunism is disputed by theorists				
Tjosvold	1984	Theory building (co-operation theory)	Organisational practice	Most complex tasks better completed in co-operation; members need to perceive goal interdependency (affects employment as well as inter-firm).
Dyer & Singh	1998	Theory building	Inter-organisational competitive advantage	Relationship-specific assets, knowledge-sharing, complementary capabilities and effective governance can lead to relational rents.
Lunn	2009	Comment from behavioural economics viewpoint	Rationality	Fairness and common purpose are possible, even between strangers; most economic transactions are underpinned by trust.
In practice, contracts are rarely the drivers of performance quality				
Mullin	1996	Comment with examples	Outsourcing	Within two years, most contracts are irrelevant.
Roxenhall & Ghauri	2004	Exploratory – 3 case studies	Use of written contract	Contracts routinely signed but seldom used.
There is evidence for trust as an indicator of good performance				
Mohr & Spekman	1996	Empirical; 102 computer dealers	Successful working relationships	Co-ordination, trust, communication quality and information sharing are related to satisfaction.
Zaheer *et al*.	1998	Empirical; 107 buyer-supplier dyads	Does trust matter to performance?	Interorganisational trust does matter.
Brock Smith & Barclay	1997	Empirical; 338 dyads in IT industry	Effectiveness of selling partner relationships	Interdependence, co-operation and mutual trust are linked with effectiveness (performance and satisfaction).
Conklin	2005	Exploratory; First major case of HR o/s	Risks and rewards	Inter-firm governance structure must be effective; but trust necessary as not all circumstances can be foreseen.
Judge & Dooley	2006	Empirical; 158 healthcare orgs	Strategic alliances and TCE	Trust and control can be complementary and lead to confidence and mutual reduced risk.

Authors	Date	Type of research	Context	Relevant findings
There is potential for employees to be opportunistic within their employment contract				
Linder & Zacharias	1993	Theory building	Vertical integration, Marxist outlook	Why should workers submit to subordination in employment? They need the social insurance.
Internally, goal incongruence still happens				
Ouchi	1979	Theory building	Organisational control	Even within organisations, individuals' goals are only partly congruent – there is still the challenge of evaluation and control.
Moschandreas	1997	Theory building	Opportunism	Humans are too complicated to all be motivated by self-interest – too many variables. Control may encourage opportunism, and managers may be opportunist towards employees.
Coff	1999	Theory building	RBV and stakeholder bargaining	Stakeholders (e.g. managers, employees) can appropriate rents.
Fan	2000	Exploratory; Case studies	Outsourcing IT	Outsourcing in most cases considered only option – inhouse dept "not capable".
Powell	2004	Model building, based on case study	Implementing strategy	Rationality is not "bounded" but idle – managers fail to act (execution holes).
Miranda & Kim	2006	Empirical; 214 USA local authorities	IT outsourcing	In highly political LAs, concern about external opportunism competes with concern about internal opportunism.
Sliwka	2007	Model building	Strategic change	May be necessary to replace staff when change has to be implemented, incumbents will defend the past.

Authors	Date	Type of research	Context	Relevant findings
Outsourcing has been used to avoid internal incongruence				
Kerr & Radford	1994	Comment	Competitive tendering	CCT used to address inflexible pay bargaining.
Whitford & Zeitlin	2004	Theory building	Manufacturing collaboration	Outsourcing regarded as means to avoid unions.

2.2.1.7 Summary

TCE has attracted considerable attention in the past twenty years, where its arguments about the full costs of different organisational design choices have been explored by academics during a boom in outsourcing. It is positioned both as an alternative to production cost comparison and as a consecutive supplement to it (Williamson & Ghani, 2012). "Malleability…has allowed the theory to spread rapidly, but has also resulted in many rather loose applications" (David & Han, 2004, p. 53). It has many critics, but a substantial meta-analysis by Geyskens *et al*. in 2006, based on a dataset of 557 correlations from 209 samples, found considerable empirical support for TCE. They also found that choosing hierarchical or relationship governance in response to the level of transaction hazards increased firms' performance.

The cost, time and effort involved in controlling post-contract opportunism are relevant considerations in outsourcing. In the case of sales outsourcing, the use of "difficult to measure performance" as an indicator has a strong track record in predicting the make/buy outcome. Nevertheless, this review has also explored the phenomena of relational contracts with third parties and employee opportunism, both of which would undermine or at least modify the TCE assumptions, and both of which are observed in practice. TCE certainly raises two pertinent questions concerning the resourcing of any function: Which option will be cheaper? Which option will be easier to control?

A theme that is also strong in TCE is that vertical integration is needed to leverage specific assets. Although often positioned as an alternative to resource-based theory, the asset specificity argument within TCE has also been aligned with the resource-based view. The RBV is considered in the next section.

2.2.2 The resource-based view

The "resource-based view" of the firm advocates a differentiation approach to outsourcing. The theory focuses on the distinction between "core" capabilities that make a company differentiated and "non-core" activities that might be outsourced. The terminology of the resource-based view has crossed into practice, and it is an idea that appears to have intuitive appeal to managers. Theoretically, it has been aligned with the concept of "asset specificity" in transaction cost economics, and through that alignment has empirical support. This chapter analyses the literature exploring both the "asset specificity" and "competences" approach to differentiation and its influence on the "make-or-buy" decision. A list of key studies is provided in table 9 at the end of this section.

2.2.2.1 Resources and organisational design

"To assure survival and success, the firm must optimise the efficiency of its resource-conversion process", Ansoff (1987, p. 54).

Williamson (2002) conceded that organisational knowledge and learning are dealt with only in a limited way by TCE, so exploration of alternative approaches can provide more depth to this critical consideration in deciding the boundaries of firms. The resource based view is a strategy-driven approach to the organisational design of firms, which has a robust history (Barney *et al*., 2011). Business Source Premier listed 173 scholarly articles including "resource-based view" in the abstract published between January 2011 and June 2012, so it appears to geneate more interest than TCE in the recent literature. The language of the resource-based view, such as core competences, has easily passed into practitioner publications.
The resource-based view focuses on the role of specialised capabilities as a source of value creation for firms (Holcomb & Hitt, 2007). It focuses on the acquisition of

competitive advantage and the ability to earn more revenue, rather than reduce costs, something that might be intuitively appealing to sales managers.

The resource-based view is often positioned as an alternative to TCE. For example, Safizadeh, Field and Pitzman, (2008), in an empirical study of customised services in financial services, concluded that given the competency value gained from providing such services the resource-based view may “trump” (p. 89) transaction cost considerations. However, as Carter and Hodgson (2006) argued, on the basis of a meta-analysis, human asset specificity in TCE could be reinterpreted as competence, a view supported by Argyres and Zenger (2007) on the basis of exploratory research. This lends credence to the competency approach to “make-or-buy”, given the larger body of literature on TCE’s “asset specificity” concept. Both the resource-based view, as evidenced in Espíno-Rodriguez and Padrón-Robaina’s 2006 review, and TCE assume that the more unique the resources in a business activity, the less likely it is to be outsourced. However, an over-concentration on protection of current competences at the expense of renewal would not represent successful resource management (Helfat & Peteraf, 2003).

The origin of the resource-based view is a theory of growth. Penrose (1959) is accredited as the first author to argue that firms can create economic value not just because they own assets, but through the effective and differential management of them, i.e. she identifies a causal link between resource management and the generation of opportunities. Notably though, the focus of her book was a theory of the growth of the firm (Rugman & Verbeke, 2002). Arguments for acquiring talent via outsourcing can be linked to Penrose’s observation that limits on the availability of talent constrain a company’s rate of growth (Kor & Mahoney, 2004).

When firms have competitive gaps (weaknesses versus the competition) resource development is needed to close the gap. The company could acquire that resource or develop it in-house (Ansoff, 1987). There is a start-up cost and time lag in developing new skills internally and the company also bears the risk. For example, when a company needs a quick entry to a difficult market, acquisition of resources is preferable (Holcomb & Hitt, 2007). Of course, in other circumstances, it might be better to develop resources internally. All firms are different in their access to resources and how they manage them (Hooley, Möller & Broderick, 1998). Given that access to specialist selling skills has been claimed as the second most common reason for companies to outsource sales (Anderson & Trinkle, 2005), but keeping firm-specific knowledge in-house has been empirically observed to be a reason for insourcing sales (Anderson, 1985; Wilson & Zhang, 2002; Krafft *et al*., 2004), the resource-based view literature is an important source of possible antecedents for make-or-buy decisions in sales.

2.2.2.2 The principles of RBV

The resource-based view of the firm is widely attributed to Wernerfelt (1984), although Barney (1991) is more widely quoted. Wernerfelt explained that differences between firms are characterised by different sets of resources, and these differences should form the foundation of competitive strategy. These resources should also be applied to developing new capabilities.

The recent popularisation of the resource-based view can be traced to the work of Prahalad and Hamel (1990) who focused more on market share than growth. Achieving competitiveness, they argued, relies on the concept of the firm as a bundle of “core competences”. “Core” competences are those that the firm can uniquely exploit, or the new ones it must speedily acquire. Companies achieve core competence leadership by better resource leverage.

In the resource-based view, strategy is a quest for “rents”. Rents are returns (profits) above the normal rate of return in the industry. The achievement of rents is an indication that a firm has a competitive advantage over others (Mahoney &

Pandian, 1992; Lonsdale, 1999; Phelan & Lewin, 2000). The ultimate aim of the firm is to earn rents.

Resources are not perfectly mobile between firms (Hooley *et al*., 1998); they are strengths that cannot be imitated (Hamel & Prahalad, 1994). Several researchers have supported the logic that specialised and differentiated capabilities are sources of rents for firms (Holcomb & Hitt, 2007; Helfat & Peteraf, 2003; Hooley *et al*., 1998; Mahoney & Pandian, 1992; Rugman & Verbeke, 2002; Ray, Barney & Muhanna, 2004; Kor & Mahoney, 2004; Hoopes, Madsen & Walker, 2003; Safizadeh *et al*., 2008).

The resource-based view has become popular due to the influence of strategy thought leaders such as Prahalad and Hamel (1990) and Michael Porter (1985), who argued that differentiation through competences that are difficult to imitate delivers better than average profitability. There is empirical evidence that differentiation and entry barriers lead to higher than average profits, both from the RBV point of view (Selling & Stickney, 1989; Arend, 2006; Newbert, 2008) and from TCE studies of asset specificity (Geyskens *et al*., 2006). Barney (1999) argued that TCE does not take account of capabilities, but some authors have equated “asset specificity” with the concept of “capability” or “competence” (Carter & Hodgson, 2006; Argyres & Zenger, 2007) or at least posited that they are complementary (Wilson & Zhang, 2002). TCE meta-analyses have found empirical evidence for uniqueness, especially skills, as an indicator of vertical integration, although David and Han (2004) disagree with Geyskens *et al.* (2006) about whether or not it leads to performance, and Arend (2006) regarded the link to performance as very hard to measure.

Critics suggest that the resource-based view is an incomplete explanation of competitive advantage, and one that lacks predictive strength (Priem & Butler, 2001). Changes in the business environment can soon change strengths into weaknesses (Priem & Butler, 2001). It is clear that having rare resources is not enough, a firm must be able to exploit them (Newbert, 2008). Assets are only realised when they are well-directed (Phelan & Lewin, 2000). The strategic value of a resource is the way the company uses it with other firm-specific resources to earn rents (Phelan & Lewin, 2000). However, the arguments that better profits ("rents") are the result of differential capabilities has been challenged by Coff (1999), who noted that "rents" in better performing companies might be appropriated by stakeholders (e.g. employees demanding more wages from a successful firm, or some customers demanding better prices). This phenomenon has been observed in the sales function, where better performing salespeople acquire better remuneration (Menguc & Barker, 2005).

While there is a focus in RBV on owning capabilities (Wernerfelt, 1984), advocates of the networked firm would argue that almost everything could be outsourced apart from what determines the firm's identity, such as intellectual property or a brand (Phelan & Lewin, 2000; Sucky, 2007). For example, in the pharmaceutical sector, assumptions about what is "core" have been fundamentally challenged in recent years, with significant growth in contract research organisations, contract manufacturing organisations and contract sales organisations, according to industry analysts CanBiotech (2005). Companies could at least enhance their portfolio of capabilities by designing unique combinations from resources available from specialist companies (Holcomb & Hitt, 2007).

On balance though, the principles of RBV seem to lead managers to avoid dependency on external firms (Lonsdale, 1999). There are widespread indications from meta-analyses of both TCE and RBV that the more unique the resources deployed in a business activity within the firm, the less likely it is to be outsourced (Espíno-Rodriguez & Padrón-Robaina, 2006; David & Han, 2006). Studies of sales resourcing also indicate a tendency to insource where training of salespeople takes a long time because of the knowledge and skills needed to be effective (Anderson, 1985; Wilson & Zhang, 2002; Krafft *et al*., 1984). Barney (1991) defined resources as combinations of physical, human and organisational capital. Human capital encompasses training, experience, knowledge, insight and relationships. It is that human capital that has attracted interest in studies of sales, both from the TCE point of view, where the terminology used is human asset specificity (Anderson, 1985) and the RBV point of view (Menguc & Barker, 2005). "Human asset specificity" (Riordan & Williamson, 1985, p. 376) has also attracted attention in the outsourcing literature. For example, Watjatrakul and Drennan (2005) found in their study of e-mail marketing outsourcing that specific skills and tacit knowledge (acquired via work experience in the company) were major factors for insourcing decisions. When workers have firm-specific skills, both they and the firm lose value if they leave. In particular, the firm faces additional training costs for a new employee (Williamson, 2002).

It has been argued that RBV over-focuses on current capabilities, which would leave a firm exposed to environmental change (Priem & Butler, 2001). However, the "dynamic capabilities" school of thought within the resource-based view (Teece, Pisano & Shuen, 1997; Lonsdale, 1999: Helfat & Peteraf, 2003) explains that a firm that can manage resources to innovate, respond to changing markets or close a skills gap, has a particular suite of competences associated with managing change. Competences have a life cycle (Helfat & Peteraf, 2003). Firms should not be constrained by what they have (Nooteboom, 1993; Kim &Mauborgne, 1997) and need not be since the acquisition of resources could accelerate strategy implementation (Ansoff, 1987). As the business environment changes, "selection events" occur to prompt companies to review and possibly redirect their capabilities (Helfat & Peteraf, 2003).

The issue of responding to change is important to considerations of "make-or-buy". It is not ignored by the resource-based view since dynamic capabilities explains that a resource-based approach can be taken to acquiring capability. However, accommodating possible future change is addressed specifically by real options theory, which is discussed in the next section.

Table 9: Differentation

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Differentiation leads to profit				
Selling & Stickney	1989	Empirical; 22 industries 1977-1986	ROA	Differentiation and entry barriers do lead to higher profits.
Porter	1996	Comment	Business strategy	Growth imperative is hazardous, differentiation through competencies and profitability more important.
Sources of differentiation – TCE views				
Williamson	1985	Book	TCE	6 elements of asset spec: Human (skills and knowledge) Physical assets; Site; Dedicated assets; Brand reputation; Time-specific.
David & Han	2004	Meta analysis of 63 articles, 308 tests	Review of evidence for TCE	Strong support for asset specificity as a predictor of vertical integration, especially skills. No obvious link between TCE predictions and performance.
Geyskens *et al.*	2006	Quants meta-analysis, 200 articles 1975-2003	TCE and make-buy-ally	Strong support for asset specificity and it leads to enhanced performance.
Carter & Hodgson	2006	Meta-analysis of 27 studies, 12 on vertical integration, 19 on hybrid 1998-2002	TCE and vertical integration	Vertical integration studies are only partly consistent; hybrid very limited. Asset spec broadly interpreted. Human asset specificity could be reinterpreted as *RBV*. Recommend separate human asset specificity construct – alignment with competence.

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Sources of differentiation – RBV				
Wernerfelt (1984); Barney (1991); Mahoney & Pandian, (1992); Hooley *et al.,* (1998); Rugman & Verbeke, (2002); Ray *et al.,* (2004); Kor & Mahoney, (2004); Hoopes *et al*., (2003); Holcomb & Hitt, (2007); Lockett *et al.* (2008); Safizadeh *et al*., (2008); Barney *et al.* (2011)			Explanations of the resource-based view	Specialised capabilities are source of "rents" for firms
Prahalad & Hamel	1990	Theory building	Firms should concentrate on developing core competences to be competitive	Definitions of core competence and those who make them are "competence carriers"; core competences are collective learning in organisations, e.g. Sony and miniaturisation.
Priem & Butler	2001	Opinion	RBV	Criticise RBV as incomplete explanation of competitive advantage.
Espino-Rodriguez & Padron-Robaina	2006	Review of 10 studies (8 empirical)	Summary of RBV empirical findings (and comparison with TCE)	The more unique the resources in a business activity, the less likely it is to be outsourced.
Arend	2006	Review of 60 RBV studies	Empirical strength of RBV	Studies find for RBV, but he regards the evidence as fragile due to resources, performance and the link between being very hard to measure.
Argyres & Zenger	2007	Explorato ry; Case study	RBV vs TCE	Specific assets are equivalent to capabilities.
Newbert	2008	Empirical; 664 technolog y firms	RBV concepts	Value and rareness of resources are associated with competitive advantage, but must be able to exploit them in order to improve performance.

Authors	Date	Type of research	Context	Relevant findings
Specific assets, competences, especially skills associated with insourcing sales				
Anderson	1985	Empirical; 159 respondents in 13 companies, one sector	Applicability of TCE to sales outsourcing	Ten indicators of company "nature", which was a significant contributor to insourcing. Other specifics were product or customer related.
Wilson & Zhang	2002	Empirical; 610 UK firms	TCE/RBV comparison re: sales outsourcing in the UK	Support for elements of firm specificity.
Nature of human asset specificity in general				
Battu *et al.*	2002	Empirical; Employee and employer surveys	TCE and the nature of employment in the UK	Workers, even with firm-specific skills, can be very mobile.
Kulkarni & Ramamoorthy	2005	Theory building	Balancing commitment and flexibility in the employment contract	There are two types of human asset specificity: usage specific can be easily transferred to another firm; firm-specific cannot.

2.2.2.3 Summary

This section has reviewed the resource-based view approach to outsourcing. The resource-based view has a long history of theoretical development, and the terminology of RBV such as capabilities and competence has been widely adopted by practitioners. The association of differentiated capabilities with competitive advantage is a common theme in strategy. Whilst RBV is often seen as an alternative to transaction cost economics, it is also seen as overlapping with the TCE concept of asset specificity, and this is particularly true when considering “human asset specificity”. However, it has been criticised for lacking predictive power in times of change. Consequently, this review now considers a more recent theoretical approach to “make-or-buy” which has been examined in the context of uncertain business conditions.

2.2.3 The real options approach

The previous sections have identified two perspectives on "make-or-buy" decisions: transaction cost comparisons and the relative value creation potential of resource options. When markets are changing rapidly, a firm might improve its ability to survive and thrive if it has access to a choice of resources which enable it to accelerate its implementation of strategy. None of the theories discussed so far have considered opportunity cost, which is the focus of the third theoretical lens for make and buy discussed in this review – real options. A list of key studies is provided in table 10 at the end of this section.

The arguments for real options theory are presented and critiqued in this section. While transaction cost theory suggests that, in an uncertain business environment, a company should insource to minimise the costs of control, many studies from the TCE perspective observe that this is the weakest of its assumptions. Real options theory would agree with TCE that adaptation is the central issue of organisational design, but real options theory suggests that uncertainty would lead to more use of third party resources, at least in the short-term, for situations such as market entry or new product introduction.

2.2.3.1 Uncertain economic conditions

"Strategic flexibility is the organization's capability to identify major changes in the external environment, quickly commit resources to new courses of action in response to those changes, and recognise and act promptly when it is time to halt or reverse existing resource commitments." (Shimizu & Hitt, 2004, p. 44). Profitable growth is the expectation of virtually all investors (Hitt *et al*., 2006). Unfortunately, the real world is messy, confusing and complex, with too many variables to be predictable or controllable (Bryan, 2002), which means that companies cannot assume a smooth continuity in meeting shareholders' expectations. A high pace and degree of change in the external environment of the firm, encompassing economic, market, and technological change, can be perceived as high risk and could provoke defensive behaviour. However, even in transaction cost economics, Williamson and Ghani (2012) acknowledge the need for "disequilibrium contracting" in the case of "high velocity events" (p. 78).

The logic of all company strategy assumes that an organisation must analyse the business environment, compare its capabilities to it, and formulate strategy to align business strengths to realise market opportunities, address weaknesses and minimise risks (e.g. Bowman, 1990). Where organisational capabilities are not aligned to the business environment, changes have to be made. Strategy is the process by which managers ensure the long-term adaptation of their firm to its business environment (Chakravarthy, 1986).

For example, in a study of companies in Argentina during a period of dramatic economic change (including hyperinflation and deregulation) between 1989-1999, Hatum and Pettigrew (2006) found that analysing and using information about external change to design and adopt new models for processing was critical to the flexibility and adaptation needed in the times. In the healthcare sector, Illert and Emmerich (2008) and Ruzicic and Danner (2007) have highlighted the increasing influence of payers (insurance companies and government agencies) and patients, which is decreasing the buying influence of medical professionals, and demands new sales models from pharmaceutical companies.

The effect of business uncertainty in the make-or-buy literature is divided between the assertion that it predicts insourcing and the equally plausible assertion that it predicts outsourcing. In conditions of uncertain demand, making the right choice might have to be balanced with keeping all options open. Díez-Vial (2007), Martinez-Sánchez *et al*. (2007), Miranda and Kim (2006), Rogers (2009) and Li *et al.*

(2010) suggest that business uncertainty is a predictor of more outsourcing rather than less, as managers will not make long-term cost commitments such as permanent employment in uncertain conditions. Indeed, volume flexibility appears to have a positive effect on firms' competiveness (Jack & Raturi, 2002; Sawhney, 2006). Although arguments for the value of variable costs date back to Stigler (1939), it is noticeable that since Sanchez (1993) argued for real options in strategy, a number of qualitative and quantitative studies have supported the value of flexibility and the role of outsourcing and out-tasking in achieving it.

2.2.3.2 The TCE view: business uncertainty leads to insourcing

Because when a person is employed, their activity is apparently directly controlled, Coase (1937) perceived that the firm provided a better environment for adaptation in uncertain economic times. In the market, agents are free to carry out tasks in their own way, and Williamson argued that uncertainty in the business environment would therefore be a source of contracting hazard, with agents opportunistically demanding more for adaptations and amendments (Williamson, 1979). Therefore, in uncertain economic conditions, adaptation through internal hierarchy should be cheaper to manage. Frequent changes in employment requirements should be easier to achieve than frequent adaptations in commercial contracts with suppliers (Williamson, 2008).

This aspect of the transaction cost theory approach has support in agency theory which assumes that the owners of a firm should have more control over employees, even though agency theory allows for agent-style behaviour from employees (Eisenhardt, 1989; Hart & Moore, 1990). From a Keynesian point of view, Dunn (2000) also argues that markets are inappropriate and too rigid to deal with unexpected change, therefore flexibility is more likely to be achieved within the firm.

In support of these theoretical assumptions, some practitioners have commented on the additional risks represented by outsourcing, and opine that by increasing risk, outsourcing may constrain a company's agility (Downey, 1995; Whitmore, 2006; Ketter, 2008). While business is supposedly steeped in risk-taking, balancing the upside risk and downside risk of outsourcing (and sales outsourcing) can be a very complex and judgemental exercise, which many organisations do not manage well (Lonsdale, 1999; Ngwenyama & Sullivan, 2007).

There is empirical evidence that would suggest that flexibility in organisational design is not necessarily the answer to environmental uncertainty. For the manufacturing "make-or-buy" decision, Pagell and Krause (2004) present strong empirical re-tested evidence from a study of 252 operations managers and purchasing managers that there is no evidence that operational flexibility or outsourcing helps with firm performance in environmental uncertainty. Ironically, Mpoyi and Bullington (2004) observed that while changes in vertical integration levels are associated with lower production costs, it is unclear whether more or less vertical integration delivers more improvement. The concept of uncertainty is broad and the relationship between it and organisational design is complex. There is no systematic relationship between demand variability and degrees of vertical integration (Krickx, 2000). Sanchez (1993) explains that because of the many facets of flexibility, its performance benefits are difficult to examine.

Given the availability of contradictory findings, care is needed to discern externally defined volatility from internal perceptions of unfamiliarity. It also raises the question of selective outsourcing. Williamson (2008) asserted that the overuse of any mode of contracting is to be avoided, and the idea of "real options" implies many viable choices. In practice, boundaries are "blurred" (King, 2006, p. 123); they evolve as uncertainty fluctuates. Multiple types of relationship reduce opportunism in all relationships (King, 2006). Mixing insourcing and outsourcing is a recognised way of reducing the risk of dependency on suppliers (Embleton & Wright, 1998;

Johnson, 2007), leading to networked organisations as a desirable organisational design (Snow *et al*., 2005). In particular, Williamson and Ghani (2012) noted that “real time responsiveness often trumps steady-state equilibrium considerations” (p. 78).

2.2.3.3 Real options theory and business uncertainty

As observed by Krychowski and Quélin (2010), real options theory comes up with the opposite answer to transaction cost economics when it comes to structuring investment choices in times of business uncertainty. When uncertainty is high, the advantages of vertical integration are soon eroded by the costs of inflexibility (Li *et al*., 2010). Real options theory recommends a market arrangement rather than an integrated approach to projects such as new market entry. The less certain the outcome of an investment is, the more valuable it is to take an options approach (Brouthers, Brouthers & Werner, 2008). Ideally firms should accrue a portfolio approach to opportunities to ensure flexibility (Bryan, 2002; Brouthers *et al*., 2008). Real options theory provides a framework for decision-making that is tailored to uncertain economic environments. It is designed to reduce risk and maximise opportunity, and it is certainly intended to provide flexibility through postponement and reversibility of investments (Driouchi & Bennett, 2012).

The origin of “real options” theory has been attributed to Stigler (1939) for his examination of the value of combining variable productive services in order to increase marginal productivity, although the term “real options” dates from Myers (1977) in his discussion of spreading risk in financial borrowing. Stigler’s idea that flexible resources would be advantageous in high-risk environments was modelled by Scott, Highfill and Sattler (1988) who concluded that, where prices or quantities are uncertain in a market, the higher cost of flexible resources would be offset by reducing the costs of excess capacity or excess demand. Sanchez (1993) adapted “real options” for strategy, because in uncertain markets, the success of a firm relies on very different resources and capabilities than those required in stable conditions. Real options theory is future-oriented and explains how firms can build their capabilities (Foss, 1998; Anderson, T.J., 2000) and be responsive to their markets (Rese & Roemer, 2004). “When making resource-committing decisions, assets can be arranged to enhance alternative uses” (Anderson, T.J., 2000, p. 238).

Real options theory has generated interest among business academics (Krychowski & Quélin, 2010). Business Source Premier lists 123 articles with “real options theory” in the abstract between January 2011 and June 2012. In practice, real options theory is associated with big projects such as mining, oil exploration and production systems, but it can also be applied to outsourcing (Antelo & Bru, 2010). It recognises that timing is important in investment decisions, and promotes the value of flexibility. It counteracts the classical cost-based business case using Net Present Value, which puts a figure on the cost of waiting. Real options theory puts a value on the rewards of waiting (Krychowski & Quélin, 2010). Despite its intuitive advantages, it has proved difficult to research. There is very limited empirical work linking RO to performance (Krychowski & Quélin, 2010; Driouchi & Bennett, 2012), and it has been suggested that it has not lived up to expectations as it is difficult to calculate and implement (Krychowski & Quélin, 2010).

The essence of real options is that, in uncertain conditions, the firm should keep its initial investment in any project, such as new market entry or new product introduction, very low, while keeping open the option for higher levels of investment at a later date, or reversing the investment (Brouthers *et al*., 2008; Krychowski & Quélin, 2010). The initial investment may be a market test, or developing a prototype. The behaviour of pharmaceutical sales managers in using contract sales organisations on short-term contracts with the possibility of bringing them on headcount at a later date or curtailing the contract, as described in Rogers (2008), is entirely consistent with real options theory. International market entry is one application of real options that has been empirically studied and has delivered consistent findings in favour of third party resource in cases of business uncertainty (Brouthers *et al*., 2008; Li *et al*., 2010).

When value chains are configured, choices can be made between different types of input. Choices about distribution and marketing are defined by Sanchez (1993) as implementation options. An extensive distribution system and access to a variety of markets are aspects of firm flexibility. However, although real options theory is associated with the concept of flexibility, care needs to be taken in examining it because there are various aspects of flexibility within a firm and across its networks. Also, the relationship between strategy and performance, when flexibility is pursued, may be indirect (Fantazy *et al.,* 2009).

Real options theory agrees with TCE that adaptation to market conditions is the primary role of strategy, but takes quite a different approach to organisational design. Flexibility is defined as the capability to adapt. It may have associated costs, but it is sought because of an expectation that it improves competitiveness (Golden & Powell, 2000). TCE's assumption of opportunism means that internal contracts are preferred when frequent adaptations are needed. TCE stresses the value of contractual commitments, but in RO contractual commitments would limit flexibility and responsiveness (Rese & Roemer, 2004). In uncertain market conditions, firms should focus on options rather than obligations, and defer commitments if supply markets or networks enable that (Sanchez, 1993). The real options perspective is associated with reducing resource commitments to new ventures, increasing flexibility, adapting within time constraints, and considering uncertainty as an opportunity (Anderson, T.J., 2000). It does not assume that all suppliers will shirk and it does assume that managers may have some foresight when designing contracts (Foss, 1998).

Successful application of real options theory can become a source of value in dealing with risk and enabling a firm to evolve. It is certainly a remedy for "organisational inertia" (Driouchi & Bennett, 2012, p. 45). Sanchez (1993) anticipated that managers adopting a "real options" approach would optimise performance by internalising only a few resources that are difficult to obtain through markets or networks. In particular, using co-operative supply networks would increase a firm's knowledge of markets, gain access to new markets, reduce costs and improve speed to market. Nevertheless, flexibility incurs adjustment costs and learning overheads, so it is not without its challenges. Too much flexibility might cause organisational stress, so managers should try to identify the trade-off required between commitment and flexibility (Driouchi & Bennett, 2012).

2.2.3.4 Real options and outsourcing

While some practitioners are wary of outsourcing in uncertain economic conditions, Kachaner (2009) has recently argued that variabilization of costs is clearly an effective strategy in a recession. Since the early 1990s, there has been a marked shift from vertically integrated firms to firms using various forms of outsourcing. Indeed, companies would not have survived the 1991-1992 recession with their 1980s organisational structure; they had to downsize and outsource (Lonsdale, 1999). Market volatility, the changing nature of competition and accelerating technological innovation all cause firms to "sharply adjust" in order to cope (Fredericks, 2005). In theory, the origins of a preference for variable costs in the short-term can be traced to Stigler (1939) who observed that it increased marginal productivity. However, it is also highly topical. Organizations' commercial and financial performance improves where the importance of flexibility is increased relative to the importance of cost in their supply strategy (González-Benito, 2010). Flexibility has been observed as the third most important advantage of outsourcing (out of 14) reflecting perceptions of managers that it facilitates frequent changes (Espíno-Rodriguez & Padrón-Robaina, 2005).

Ansoff (1987) argued that the more instability there is in the business environment, the more it seems sensible to convert fixed costs (largely associated with internal hierarchy) to variable costs (usually associated with some types of outsourcing). Even Williamson (1979) argued that market exchange is always best for standardised transactions, regardless of uncertainty. Vertical integration has been used by firms to control their need for predictability and control, but when competitive and demand conditions become too difficult, firms tend to decrease integration (Harrigan, 1985).

Researchers observe that outsourcing can be used to shift the risks inherent in an uncertain environment to suppliers (Downey, 1995; Whitford & Zeitlin, 2004; Conklin, 2005; Anderson & Trinkle, 2005; Marshall & Heffes, 2005; Rogers, 2009). The vendors (companies that perform tasks for clients) have a variety of customers with different risk profiles, so they can diversify the risks inherent in a particular function better than their clients could manage on their own (Espíno-Rodriguez & Padrón-Robaina, 2005). For example, large scale recruitment is risky when performance is uncertain, and it is subsequently difficult to reduce headcount. So the vendor's customer portfolio acts as a "mutual fund" of resources (Mukherji & Ramachandran, 2007, p. 107).

There is convincing evidence from recent empirical studies that firms avoid vertical integration when they are experiencing demand volatility because they perceive the need to stay flexible (Díez-Vial, 2007). Miranda and Kim (2006) noted that regulatory pressures and budget cuts in the public sector make outsourcing more likely, and Schilling and Steensma (2002) concluded that, consistent with the real options perspective, commercial uncertainty decreases the likelihood of technology firms acquiring resources and creates a preference for licensing. However, these findings can be mediated by observations that although environmental uncertainty is an antecedent of outsourcing, both the outsourcing of peripheral (non-core) activities and internal flexibility are both associated with better performance (Martinez-Sánchez *et al*., 2007), so which way a company changes its organisational design may depend on its pre-existing conditions and well as the business environment.

2.2.3.5 "Real options" in practice

In practice, managerial behaviour is only partly consistent with real options theory (Tiwana, Wang Keil & Ahluwalia, 2007). Real options theory says that uncertainty increases option value, but this tends only to be taken into account when there is negative information about a project. Managers should, in theory, always look for options value beyond net present value (Tiwana *et al*., 2007). It is an approach that distinguishes managerial ability from luck (Sanchez, 1993).

Firms can build their capabilities by exercising "real options" (Sanchez, 1993), but the challenge is to determine the optimal set of options to maximise returns for the firm (Sanchez, 1993). Foss (1998) hailed "real options" as the third theory of economic organisation, after transaction cost economics and the resource-based view. He criticised transaction cost economics for failing to accommodate organisations' need to learn and innovate, and the resource-based view for being retrospective. "Real options", he argued, brings a "dynamic dimension" to theories of the firm (Foss, 1998, p. 2).

Table 10: Real options, and comparisons with TCE

Business uncertainty leads to insourcing				
Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Coase	1937	TCE theory	Why do firms exist?	Employed person is directed/controlled; agent is free to carry out tasks in their own way.
Williamson	1979, 1988	TCE theory	Operationalising TCE	Describes uncertainty, frequency and specificity as sources of contracting hazards; variables that will predict hidden transaction costs. (assumption – opportunism).
Klein *et al.*	1990	Empirical; 375 companies	TCE in international markets with 4 models	Environmental volatility predicts a subsidiary rather than agent.
Stapleton & Hanna	2002	Empirical; 126 responses from all 33 firms in sector	Salesforce integration in steamship lines: impact of stack train	The more unpredictable the business environment, the higher the likelihood of internal sales.
Pagell & Krause	2004	Empirical; 252 ops mgrs and purchasing managers	Relationship between environmental uncertainty and operational flexibility	No evidence that flexibility or outsourcing helps with environmental uncertainty or performance.

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Business uncertainty leads to outsourcing				
Anderson E. & Coughlan	1987	Empirical; 94 overseas ops 1955-1975	TCE and export	Difficulty in understanding the business environment leads to using agents.
Schuster & Keith	1993	6 case studies of US firms in Asia	Integrated or agent sales force	Some countries volatile and agents would be used to reduce risk.
Schilling & Steensma	2002	Empirical; 127 technology sourcing arrangement s	Acquire or licence technology	Commercial uncertainty decreases the likelihood of acquisition.
King	2006	Case study	Uncertainty and outsourcing	Manage uncertainty and share risk by outsourcing. Firms should be proficient in multiple sourcing methods.
Miranda & Kim	2006	Empirical; 214 USA local authorities	IT outsourcing	Firms cope with uncertainty by outsourcing; regulatory pressures, budget cuts, make outsourcing more likely.
Ngwenyama & Sullivan	2007	2 case studies	Risk management in IS outsourcing	Combination of contract terms and risk management strategies can ensure outsourcing is successful.
Martinez-Sánchez *et al*.	2007	Empirical; 156 Spanish firms	Workplace flexibility and performance	Managers will not reduce their flexibility if they perceive increased environmental dynamism – non-core outsourcing and internal flexibility both associated with better performance.
Diez-Vial	2007	Empirical; 155 firms (Spain)	Vertical integration strategy	Firms avoid integration when demand volatility present – need to stay flexible.
Brouthers *et al.*	2008	Empirical; 160 firms (Holland and Greece)	Real options in international market entry	Real options indicates external solution in uncertain conditions.
Rogers	2009	Quals; 12 sales directors in UK pharma	Use of CSOs	Flexibility is normally “top of mind” when considering outsourcing sales.

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Real options theory predicts "make-or-buy" in conditions of uncertainty				
Stigler	1939	Theory building	Fixed versus variable costs in the short-run	The ability to combine variable productive services should increase marginal productivity.
Myers	1977	Theory building	Financial borrowing	Original source of "real options".
Sanchez	1993	Theory building	Organisational design	"real options" in strategy.
Dixit & Pindyck	1995	Comment	Capital investments	Real options spreads risk.
De Leeuw & Volberda	1996	Theory-building	Nature of organisational flexibility	Flexibility is both a management task (variety of processes) and an organisational design task.
Foss	1998	Book chapter	Real options theory	Future-oriented, explains how firms can build capability.
Golden & Powell	2000	Theory-building	Definition of flexibility	Ability to adapt – in the s/t, m/t, l/t; in response to seen and unseen; proactively or reactively; internally or externally.
Jack & Raturi	2002	3 case studies plus empirical; pilot of 25; 140 managers;	Volume flexibility and performance	s/t and l/t sources of volume flexibility have positive impact on firm performance; large firms use outsourcing for l/t flexibility.
Rese & Roemer	2004	Theory building (real options)	Managing commitments versus flexibility	TCE stresses value of contractual commitments, but in fact these limit flexibility and responsiveness.
Fredericks	2005	Theory-building	Building capability to be flexible	Superior intra and inter firm flexibility proposed to achieve success in dynamic markets.
Alvarez & Stenbacka	2007	Modelling	Real options and outsourcing	(production) outsourcing should be partial and should increase with market uncertainty.

Authors	Date	Type of research	Context	Relevant findings
Limited evidence that exercising options should not just be a reaction to business uncertainty, but a source of competitive advantage (with some provisos).				
Scott *et al.*	1988	Theory building with calculated models	Advantages of flexible resources in uncertainty	Higher cost of production worth it for flexible resource as they can reduce costs of excess capacity or excess demand.
Anderson T. J.	2000	Theory building	Real options theory in strategy decisions	Options perspective associated with reducing resource commitments to new ventures or increasing flexibility; need to adapt within time constraints; uncertainty is opportunity as well as risk.
Sawhney	2006	Quals; observations at 10 firms	Flexibility in value chains and uncertainty	Flexibility can be used to create competitive advantage.
Tiwana *et al.*	2007	Empirical; 88 IT projects Test for options: Grow Stage (increments) Change scale (up or down) Switch use Defer abandon	Real options and bounded rationality	Managerial behaviour only partly consistent with real options theory; real options theory says that uncertainty increases option value, this tends only to be taken into account when there is negative information about a project. Managers should, in theory, always look for options value beyond NPV.
Homburg *et al.*	2007	Empirical; 280 pairs – marketers and sales managers		Customer-related and competitor-related responsiveness affect market performance; separate constructs.
Fantazy *et al.*	2009	Empirical; 175 SMEs in Canada	Strategy, flexibility and performance	Some support for flexibility improving performance, but different elements are relevant to different strategies.

2.2.3.6 Summary

This section has reviewed the real options theory approach to outsourcing. Real options predicts different organisational design outcomes from transaction cost economics in times of business uncertainty. Emerging from financial portfolio management, real options can be connected to both risk management and the desire for variabilisation of costs evident in firm's outsourcing behaviour.

There is some limited evidence that there are transaction cost, resource-based view *and* real options antecedents in "make-or-buy" decisions (Leiblein & Miller, 2003). Firms need to avoid contractual hazards, build on past expertise and seek the ability to respond flexibly in uncertain conditions.

Having observed that there are three strong theories that each partially explain the antecedents of "make-or-buy" decisions in organisations, the next section of this literature review considers the influence of each in the design of sales functions.

2.3 Antecedents of sales outsourcing

2.3.1 Introduction

There are three strong theories that each claim to explain the antecedents of "make-or-buy" decisions in organisations. The constructs in these theories have been tested by indicators that can be easily understood by practitioners. When the literature about outsourcing, particularly sales outsourcing, is examined in practitioners' terms, the link between theory and the practitioners' rationale for the design of sales functions is not lost, but it needs some interpretation.

2.3.2 Production cost

Transaction cost economics has been positioned both as an alternative to production cost comparison and as a supplement to it (Williamson & Ghani, 2012). Although highly likely to be a primary consideration in practice, production cost comparisons are treated fairly briefly in most outsourcing theory. Tangible cost differences are still a dominant factor in the 21st century business case for particular types of organisational structure (Fan, 2000; Martinez-Sánchez *et al*., 2007; Anderson, S. & Dekker, 2009a). Notably, cost leaders in markets have a higher outsourcing intensity (Martinez-Sánchez *et al*., 2007).

"Numerous writers conclude that the greatest benefit an enterprise can derive from outsourcing is cost reduction." (Kakabadse & Kakabadse, 2002a, p. 1).

There is empirical evidence for cost-saving being a dominant driver of outsourcing initiatives. Individual studies from small single country samples (Moschuris, 2007), cross-sectoral samples (Smith, Morris & Ezzamel, 2005) and large international samples (Kakabadse & Kakabadse, 2002b), find that cost saving is the most important and most frequently quoted reason for outsourcing. While 60% of respondents in an international study did not mention policy reasons for contracting-out, only 5% failed to mention cost efficiency; a majority also reported cost efficiency as the main benefit realised (Ford *et al*., 1993). In the UK, high wages have been associated with outsourcing, and labour productivity improves with outsourcing intensity (Girma & Görg, 2004). Practitioner comment includes observations that most companies view outsourcing as a "pure cost play" (Biederman, 2004, p. 23).

Most convincingly, Kremic *et al*. (2006) in a meta-analysis of 210 studies found that 85% of them concluded that cost-saving was the main benefit sought. Buyers expect cost reduction from leveraging the economies of scale and experience curve of the supplier, making their own organisation "lean" (Kakabadse & Kakabadse, 2002a). The most successful outsourcing providers achieve client satisfaction through being able to capitalise on experience, developed over a number of projects, to reduce marginal costs of service delivery (Levina & Ross, 2003). Although some studies do find other motivations to be dominant when companies buy outsourced services, for example, improved quality and flexibility of services (Espíno-Rodriguez & Padrón-Robaina, 2005), cost is still part of the equation.

"Efficiently using scarce resources to fulfil needs is a very important part of the prescription for good business." (Groth & Kinney, 1994, p. 57).

Cost management can make a considerable contribution to the value of a company, and thus shareholder satisfaction. Costs change over time for a variety of reasons, but modern information technology should enable acquisition of knowledge about costs. Companies should concern themselves with containing fixed and variable costs, eliminating costs where associated benefits are negligible and reducing the costs of essential activities. These things can all reduce financial risk (Groth & Kinney, 1994).

Certainly outsourcing appears to be empirically linked to firms that are successful with cost leadership strategies (Gilley & Rasheed, 2000; Martinez-Sánchez *et al*., 2007). The substantial research base of Lacity *et al*. (2008) has reported reduced operating costs as the leading operational benefit achieved from IT and BPO outsourcing. Similar results have been reported for outsourcing production (Bardhan, Mithas & Shu, 2007). Jiang, Frazier & Prater, (2006) compared the published performance data of firms that have outsourced part of their operations versus their non-outsourcing competitors, and they found that outsourcing firms have “an obvious, significant advantage in cost efficiency” (p. 1296).

However, objective financial performance criteria are limiting, as they focus on shareholder value, thus excluding the experience of some of the firm’s stakeholders, and they can only really be judged historically. While financial measures are assumed to be uniform, their usefulness varies by industry sector (Selling & Stickney, 1989) and published figures can be manipulated (Matthyssens & Pauwels, 1996). Besides these nuances, researchers should consider findings from Deloittes that 48% of large, global organisations had no standardised method for evaluating outsourcing (Marshall & Heffes, 2005).

The cost of the misalignment of an organisation’s design with its business environment has not been widely explored either (Macher & Richman, 2008), but researchers have observed that the relationship between performance and outsourcing is not linear (Rothaermel *et al*., 2006; Kotabe & Mol, 2009). There is an optimal (and sometimes elusive) mix between vertical integration and outsourcing that maximizes financial performance. Recent claims for the cost-saving potential of partial outsourcing/“out-tasking” are significant (Krishnamurthy *et al*., 2009). Hybrid organisation also has support in the case of “downstream” outsourcing (including sales outsourcing) (Rangan *et al*., 1993). Return on investment can and should be measured, but it is difficult to identify the most profitable portfolio of contract types (vom Brocke & Lindner, 2004). Nevertheless, it is clearly important to explore how sales managers make cost comparisons between their organisational design choices.

There is comment, although little empirical confirmation, that firms which outsource sales activities do so for cost reasons. For example, Anderson and Trinkle (2005) comment that “This (cost reduction) is usually the first, second and third reason given to turn to a third party” (Anderson & Trinkle, 2005, p. 3,). In 1985, Anderson commented on the rising costs of making a sale and Taylor (1990) argued that rising selling costs were a reason to use manufacturer’s representatives rather than employing salespeople. Some commentators have pointed out the clear economic benefit of no sales expense until there is a sale (Landry & Pandrangi, 2005; Anderson & Trinkle, 2005). Kaufman (1999) also noted that the multiple line sales call is more cost-effective for the customer. Equally, justification for directly employed salespeople is usually driven by breakeven analysis (Ross *et al*., 2005).

Colletti and Chonko (1997) argued that sales performance should be judged in comparison with competitors; and one indicator of a superior sales function is to have sales costs less than the average for the sector. In the case of sales insourcing or outsourcing, straightforward calculations of sales potential less costs (e.g. Powers, 1987; Dishman, 1996) are a typical starting point. Outsourcing selling should be attractive in terms of economic efficiency, although visibility of the costs of the sales function are often disguised in the term “SGA” (sales and general administration) (Anderson *et al*., 2003).

Aware of the continuing interest in the business case, the Manufacturers’ Representatives Educational Research Foundation focuses messages to potential clients on the cost-saving advantages, claiming that the cost of using MRs is considerably less that of an employed salesforce, offering not just lower costs but standardised and predictable costs (Kaufman, 1999). Landry and Pandrangi (2005) asserted that an in-house sales team of over 20 could be replaced with the full-time equivalent of ten from an agency who were paid only on performance factors. Even where cost is not the main driver for outsourcing, sales managers expect that using contract sales organisations should cost less than employing salespeople (Rogers, 2009).

2.3.3 Challenges to the cost-dominant approach

Despite the evidence for cost as a primary antecedent of outsourcing in general and sales outsourcing in particular, competing motivations may mean that organisations are sometimes prepared to pay more to outsource an activity (Smith *et al*., 2005). The disproportionate attention paid to executional cost management may not result in the best make/buy or ally decisions (Anderson, S. & Dekker, 2009b). In addition, concerns about hidden costs and supply problems do affect managers' perceptions about the long-term value of outsourcing (Kremic *et al*., 2006), and practitioner comment suggests that hidden costs have indeed been underestimated in the past (Marshall & Heffes, 2005). As Williamson (1996) argued, a combination of economics and organisational science is needed. Structural cost management is a factor in designing the best contractual mix (Anderson, S. & Dekker, 2009a). Even in studies confirming cost efficiency as the primary driver, respondents frequently mentioned "loss of control" (p. 211) issues as the main disbenefit of buying rather than making (Ford *et al*., 1993).

When exploring strategies that manufacturers adopt towards using contracts sales organisations, Dishman (1996) argued that cost arguments will always be modified by a number of factors, especially the degree of control that companies wish to have over the relationship with the end-customer. The concerns about the hidden costs of control have also been observed in the sales outsourcing literature from the opposite position. Traditional cost analyses can also underestimate the hidden costs of employment contracts such as training and the time cost of money, and the hidden benefits of using agents such as better coverage of sales territories and the value of their existing customer relationships. (Ross *et al*., 2005; Landry & Pandrangi, 2005; Anderson & Trinkle, 2005).

Contracts are the means by which clients of outsourcing providers will try to deal with anticipated future costs. Contracts are designed to ensure that gains are realised and conflict is minimised in an orderly way (Williamson, 2005b). Complex contracts can be used to cover more eventualities, but inevitably that incurs monitoring costs (Barthélemy & Quélin, 2006). This may be a minimal problem for large firms who can exert power over their agents (Shervani *et al*., 2007), or firms who may have developed a competency in managing suppliers (Leiblein & Miller, 2003). The moderating effects of the ability to manage agents/suppliers will be examined in more detail in section 2.4.

Nevertheless, there are strong arguments for the hidden costs of control to be the primary antecedent for organisational form, because they may exceed production cost advantages (Mukherji & Ramachandran, 2007). Coase (1988) argued that firms create value because they reduce the transaction costs that would occur in the market, and vertical integration appeared to be popular throughout most of the last century. The difficulty for managers is the measurement of the costs of control, and it is interesting to note how transaction cost studies are dominated by loosely defined constructs (Macher & Richman, 2008) which have been measured via a disparate variety of indicators (Grover & Malhotra, 2003).

Managers' perceptions of outsourcing are inter-related with their past experiences (Fowler & Jeffs, 1998; Feeny & Smith, 2008), which creates the framework for their bounded rationality. Nevertheless, since outsourcing is apparently influenced by strategy and managers are the strategy decision-makers, their perceptions are important (Espíno-Rodriguez & Padrón-Robaina, 2005). Certainly their perceptions of the hidden costs of controlling outsourcing are probably highly relevant to whether or not outsourcing is even investigated as an option.

2.3.4 Controlling the sales function

Anderson (1985), whose work has been acknowledged by Williamson and Ghani (2012) as most influential in applying TCE to marketing issues, found that the strongest effect in predicting an internal or outsourced salesforce is difficulty in evaluating performance. This was reinforced by Krafft *et al*. in 2004. It was also the strongest indicator of vertical integration of channels in a large sample, cross-industry study by Majumdar and Ramaswamy (1994) and it has broad support in major meta-analyses of transaction cost economics (David & Han, 2004; Geyskens *et al*., 2006; Macher & Richman, 2008; Rindfleisch & Heide, 1997).

There are indications in marketing channels and sales literature that control issues are very relevant to decisions about “make-or-buy”. For example, they drive back-sourcing or switching decisions in export markets (Benito, Pedersen & Petersen, 2005). Better sales effectiveness has been observed when salespeople identify with their employer (Wieseke, Ahearne, Lam & Van Dick, 2009). Behavioural control makes sense when solutions are complex and sales cycles are long. These circumstances require considerable non-selling activities and customer support (Anderson, 1985). Differing reward systems for routine selling (agency or commission) and non-routine team selling (salary and bonuses) suggest an apparent transaction cost economics approach to sales resourcing is still widespread (Tremblay, Côté & Balkin, 2003).

Channel members are selected based on their fit against criteria and their credentials (Mehta *et al*., 2002). But that does not necessarily mean that goal congruence is easy. There may be a considerable level of disagreement about marketing strategy between manufactures and the dealers (Frazier & Summers, 1984). Manufacturers use channel organisations to maximise market coverage and achieve market share, whereas the channel organisation is focused on its own profitability. Channel firms are not under the direct control of the manufacturer and do not automatically have to comply with their directions (Mehta *et al*., 2002). Despite this disconnection of control, there are also common interests such as sales volume and end-customer satisfaction (Mohr & Spekman, 1996).

Channel relationships, like outsourcing arrangements, are characterised by high failure rates. Mohr and Spekman (1996) reported that 60% of channel alliances fail, not because of agent behaviour, but because manufacturers end up competing with their channels and tend to use the term "partnership" rather loosely. It is noteworthy that it is power imbalance or use of coercive power, i.e. opportunism on behalf of the principal, which can quickly cause selling relationships to deteriorate (Frazier & Summers, 1984; Anderson & Weitz, 1989; Brock Smith & Barclay, 1997). Non-coercive tactics such as rewards and incentives are most successful in achieving channel satisfaction (Mayo *et al*., 1998), but are, of course, expensive.

Although co-operation and success have been observed in outsourced selling, it is not universally accepted that relational controls work with third parties. Duarte and Davies (2003), examining 496 relationships where the balance of power favoured the principal, found that there was no positive evidence of low levels of conflict being associated with higher performance. Research into the motivation for backsourcing may provide insight into what really needs to work in a principal – CSO relationship. Why would principals terminate an agreement with a manufacturers' agent and bring sales in-house? Employing a salesforce involves new risks and responsibilities as well as set-up costs. The primary motives for change were dissatisfaction with rep performance, concern about opportunistic behaviour, and difficulties in evaluating performance (Weiss & Anderson, 1992). These problems are predicted by transaction cost economics. When control issues arise, sales managers would see vertical integration as preferable.

2.3.5 Exceptions to control expectations

2.3.5.1 The potential for co-operation with third parties

Agent-style organisations who take on the customer interface for other companies may curtail their inclination to opportunism for a number of reasons. Firstly, they have their own reputation to consider (Mukherji & Ramachandran, 2007); secondly, they appreciate the interdependence of the supply chain in which they operate (Kaufman, 1999); thirdly, they may perceive mutual investment in the relationship or the value of behavioural incentives from the principal (Mehta *et al*., 2002); and fourthly, they observe that co-operative arrangements are better for performance reasons (Gassenheimer *et al*., 2007).

2.3.5.1.1 Reputation

Employed salespeople are generally perceived by sales managers to be more trustworthy than reps (Anderson *et al*., 2003). However, there seems to be little incentive for companies that manage the customer interface of others to be opportunistic, when they have a reputation to maintain with the end customers, and a supplier within their industry sector (Mukherji & Ramachandran, 2007). Mutual commitment to customer satisfaction is necessary for both principal and agent to achieve profitable growth (McQuiston, 2001). Buyers go beyond their immediate dyad in the supply chain when assessing the appeal of a purchase, and prefer co-operative ties between suppliers and the vendors/agents they buy from (Wuyts, Stremersch, Van den Bulte & Franses, 2004). CSOs are in their industries and territories for the long-term and they have a wide perspective (Kaufman, 1999; Novick, 2000). Indeed, it is in the agent's interest to develop special attributes in their relationship with end-customers in order to enhance their value to principals and prospects (Weiss & Anderson, 1992; Gulati & Bristow, 2005).

2.3.5.1.2 Interdependence

CSOs are "highly interdependent with their principals because their business model runs on context. The reps' operations are necessarily intertwined with those of its principals, insofar as the customers' needs are concerned." (Anderson & Trinkle, 2005, p. 28). The Manufacturers Representatives' Educational Research Foundation has suggested that the control issue with reps is not how much control the manufacturer needs, but how much they want. Contract sales organisations have more vested interest in their client's success than some other categories of intermediary (Kaufman, 1999). Equally, principals need to be careful of market reaction to the way they treat their agents. Companies are wary of backsourcing because of industry perceptions and backlash from their reps' networks (Weiss & Anderson, 1992). Reputational capital appears to have an interdependency effect constraining the opportunism of both parties.

Since interdependence is inherent in supply chains, Mohr and Spekman (1996) argue that successful alliances focus on partnership and achieving joint goals. Sales alliances that achieved trust are able to co-operate to improve performance effectiveness (Brock Smith & Barclay, 1997). Narus and Anderson (1996) suggested that manufacturers need to be adaptive in channels and manage a web of extended capabilities. Fairness is particularly focused when a company uses multiple channels to sell the same products in the same territory. Double compensation (rewarding both channels, not necessarily equally) is expensive, but necessary in order to avoid conflict and to maintain a reputation for treating complementary channels fairly (Sa Vinhas & Anderson, 2008).

2.3.5.1.3 Mutual investment/behavioural incentives

Although commission is the obvious “market governance” incentive that underpins CSOs’ existence, commission shows diminishing returns over time (Anderson, Lodish & Weitz, 1987). Managerial focus on outcomes is inevitable, but it is investments in the relationship such as marketing support, which recognises and reinforces the channel organisation’s efforts to achieve outcomes, that secure sustained performance (Frazier & Summers, 1984; Spriggs, 1994; Mehta *et al*., 2002). CSOs perception of what investment the client is making to make their businesses more successful is taken into account when they choose how to allocate their time (Anderson *et al*., 1987; Merritt & Newell, 2001). Supplier support such as end-user promotions, and joint calls are highly valued; and training has been particularly noted as a means of increasing commitment (Galunic & Anderson, 2000; Weinrauch, Stephens-Friesen & Carlson, 2001).

2.3.5.1.4 Performance

In the presence of stable and co-operative relationships between principals and CSOs, it is possible to find CSOs behaving strategically. For example, Jackson *et al*. (1999) observed that CSOs do engage in team selling, with their principal or with other players in the supply network where the customer situation requires it; for example, if it is a first time buy, the product is complex, or the customer has special characteristics or a large decision-making unit. Mutual commitments and information exchange increase the goal and role congruity of the agent with the principal, which in turn increases performance (Gulati & Bristow, 2005). Social capital, trust and distributive fairness were all associated with higher performance within supply networks (Gassenheimer, Hunter & Sigauw, 2007).

2.3.5.2 The potential for lack of control of employed salespeople

In the case of selling, the lines between external reps and employed reps can sometimes be very blurred. If the actions of external sales agents are hard to monitor, how does employment solve the problems (James, 2000)? Is it the nature of the contract that matters, or the nature of the supervision?

Just like external agents, salespeople will leave jobs where they perceive that the employer's product is poor, they get put on small sales and spend too much time on cold calling (Jolson, Dubinsky & Anderson, 1987). Just like external agents, employed reps do not see, for example, why they should they sell new products when selling the old products is easier. Firms often lack direction and diffuse their sales effort because of rituals, in-company politics, systems that do not help anyone to do better and contradictory signals and reward systems that reinforce old ways (Bonoma, 1984).

Just like external sales agents, there may be concerns about opportunistic behaviour. When 60% of sales managers have found a salesperson cheating in some way and 36% believe that bad behaviour is getting worse, it is not just opportunism that sales managers have to worry about, but anti-citizenship behaviour and even sabotage (Jelinek & Ahearne, 2006). Anti-citizenship behaviour they discussed included aggression, avoiding work, tweaking expenses and resisting rules.

Salespeople have access to customer information, are costly to replace and will probably gain financially if they switch to competitors. They are not known for formal collective bargaining, but can act together in subtle ways to protect privileges, such as expense accounts, or oppose management tools, such as sales force automation (Speier & Venkatesh, 2002). Only a minority of salespeople could be classified as positive towards change (Colletti & Chonko, 1997).

Anderson (1985; *et al*., 2003) challenged the assumption that opportunism does not happen internally and highlighted the internal costs of monitoring salespeople. Outsourcing selling should reduce transaction costs as the manufacturers' representative focuses on selling rather than internal organisational politics. Nevertheless, sales managers often perceive that it is desirable and legitimate to micro manage sales employees' behaviour (Anderson *et al*., 2003). Sometimes the hidden costs of internal operations may be difficult to measure. Most companies aim to have a hybrid between behavioural control and outcome control to optimise the performance of the internal salesforce, but poor co-alignment results in reduced performance (Onyemah & Anderson, 2009). Sales managers have to work just as hard with internal employees to generate trust in order to reduce dysfunctional behaviour (Choi, Dixon & Jung, 2004), and encourage better acceptance of change (McNeilly & Lawson, 1999).

It has been observed that the internal salesperson has a different profile from the typical external agent. Internal salespeople lose job satisfaction if they suffer role conflict and ambiguity, which is common when senior managers are asking for change. They like high levels of structure to what they do. Organisational climate exerts 60% of variation in their job satisfaction. External representatives, although they would like to influence their principal's policies affecting customer relationships, are not dismayed by role conflict and ambiguity (Mahajan, Churchill, Ford & Walker, 1984). They certainly do not blame their supervisor or even the senior management of the principal. Kaufman (1999) points out that CSOs employ high calibre sales professionals whose success is linked directly to their productivity and their contacts with customers, not with their friends in the corporate hierarchy.

All this suggests that companies may have something to gain from using external sales agents, at least to some degree, when it comes to achieving sustained performance. There will be control issues, but they are not necessarily worse, or more costly, than the challenges inherent in supervising employed salespeople.

2.3.6 Resources within the sales function

Anderson (1985) commented that only human asset specificity is relevant in selling. Although a sales function as a whole may have integrated resources and competencies beyond the skills of individual salespeople, Anderson's study revealed an extensive portfolio of knowledge and skills held by individuals that has some predictive power for make-or-buy. Even though she posited that the sales function is rarely fully integrated with the rest of an organisation, and sales directors over-estimate the uniqueness of the sales approach that they train into their salespeople, a high skill requirement is the one point on which Anderson *et al*. (2003) accept a rationale for sales insourcing. If salespeople need idiosyncratic and complex knowledge and relationships, and a supplier's approach to selling is unique, salespeople should be employees. Overall, there is evidence in the sales-related TCE studies for higher levels of skills development leading to insourcing (Anderson, 1985; Krafft *et al*., 2004; Brettel *et al*., 2011).

Verbeke, Dietz & Verwaal, (2011), in a substantial meta-analysis, identified distinctive categories of skills significant to sales performance. Although adaptive selling skills were relevant, knowledge skills (the understanding of both products and the customer enabling the salesperson to propose a customised solution) were somewhat more important. It has been suggested that "usage specific" skills, such as selling skills, can be transferred easily to other firms, whereas product-specific knowledge (Riordan & Williamson, 1985) or firm-specific skills (Kulkarni & Ramamoorthy, 2005) cannot. Companies should avoid the risk of losing key skills via outsourcing (McIvor, 2000) and in particular activities dependent on employee collaboration are best kept inhouse (Williamson, 1979; Safizadeh *et al*., 2008). Many studies have focused on human assets, perhaps because in many functions that might be outsourced, it can be the largest cost centre. For example, Watjatrakul and Drennan (2005) found in their study of e-mail marketing outsourcing that specific skills and tacit knowledge (acquired via work experience in the company) were major factors for insourcing decisions.

When workers have firm-specific skills, both they and the firm lose value if they leave. In particular, the firm faces additional training costs for a new employee (Williamson, 2002). Governance (the employment contract) cannot specify all contingencies, but it should deter termination for both parties – e.g. severance pay as a cost to the employer, and loss of non-transferable benefits, such as promotion prospects, as a cost to employees. These contractual safeguards are designed to avoid employee opportunism (Battu *et al*., 2002), and employer opportunism.

How do labour assets become specific? Battu *et al*.'s (2002) empirical study of six (geographical) British labour markets found many complex variables relating to skills and tenure, but they concluded that specificity is developed within the firm, not outside it. If "learning by doing" is an occupational trait – specificity will develop as employment progresses. The quality of match between employer and employee can also develop over time. However, contrary to the predictions of both TCE and RBV, workers with firm-specific skills can still be very mobile (Battu *et al*., 2002). It is also possible to outsource "core" activities (Alexander & Young, 1996), even knowledge-based activities, if they are granular and strategically integrated (Sen & Shiel, 2006) or embedded in inter-firm processes and routines (Dyer & Singh, 1998).

In the case of sales, it has been argued on the basis of empirical findings that only the knowledge and skills of the salespeople are relevant to discussions about asset specificity (Anderson, 1985). The role of the salesperson as a "brand ambassador" implies a great deal of idiosyncratic skills (Tanner, Fournier, Wise, Hollet & Poujol, 2008). Even from the resource-based view, the skills of salespeople have been studied without associated resource integration. However, it is noticeable that their networking skills within their own organisation are the predominant generators of resource-based view “rents” (Menguc & Barker, 2005).

2.3.7 Sales skills in detail

Selling aptitude has, not surprisingly, been suggested as an important element of salesperson performance (Walker, Churchill & Ford, 1977), and skill is one of the few things, (the others being role congruity and motivation), that have consistently been observed to have a significant influence on an individual salesperson’s performance (Churchill *et al*., 1985). Unfortunately, one of the biggest problems that practitioners report about employing salespeople is that many recruits have a slow learning curve and many companies have a high turnover of salespeople, which means a constant loss of effectiveness and efficiency (Cummings, 2004).

There is a problem in the UK with the skills of salespeople. 59% of sales managers reported a skills gap in 2008 (TBR for MSSSB, 2008), and a skills gap was still apparent in 2012 (CFA, 2012). In a recent survey of purchasing managers carried out by a large sales training company in the UK, 64% said that salespeople were “poor” or “fair”, a statistic in line with previous surveys in 2002, 2005 and 2007 which suggests that the skills gap in sales in the UK is persistent (Alford, 2010).

The second most quoted reason given for outsourcing (in European companies) is aiming to achieve best practice; “improve service quality”, “focus on core competences” and “access to new technology/skills” ranked third to fifth (Kakabadse & Kakabadse, 2002b). This suggests that the resource-based view factors might be important in “make-or-buy” decisions. The dominant reasons for choice of supplier were proven track record and industry sector experience, while future reasons aiming to outsource were dominated by the desire to achieve best practice and access to new technology and skills (Kakabadse & Kakabadse, 2002b).

With an outsourcing provider that is expert in its field, the potential of mutual strategic gain is generally recognised (Morgan, 2003). Hence, contract sales organisations are used by some of their clients for their selling expertise (Anderson & Trinkle, 2005). Aubert, Rivard and Patry (2004) found that, where impact is easy to measure, the higher the technical skills required, the more likely a firm would gain from outsourcing the task. The efficient accumulation of resource may include getting access to skills by buying in selectively to those that you want or do not have (Hamel & Prahalad, 1994). Activities that will drive future growth could benefit from outsourcing as it may lead to innovation that can then be integrated (Holcomb & Hitt, 2007).

This suggests that CSOs should be an attractive option in a resource-based analysis. Third parties specialise, and specialisation equals competence, according to Anderson and Trinkle (2005), who described contract sales organizations as selling machines - wholly-contained field sales offices, where everything in them is done with the single purpose of generating sales. All CSO expenditure supports the selling effort. Practitioner O'Connor Vos (2003) argued that CSOs invest in sales process excellence and they are proficient with productivity tools such as Sales Force Automation (SFA).

However, it is not selling skills *per se* that generate greater economic rent for firms (Menguc & Barker, 2005). It has been posited that it is the salesperson's power within their own organisation, derived from inside knowledge and relationships, that determines their value (Wilson & Millman, 2003; Plouffe & Barclay, 2007), and there is convincing empirical evidence for this view (Liu & Leach, 2001; Tellefsen & Eyuboglu, 2002; Menguc & Barker, 2005; Steward, Walker, Hutt & Kumar, 2010).

Zoltners *et al*. (2006) argued that contract sales organisations cannot do complex or idiosyncratic sales tasks, such as the multi-step sell, even though there is a small collection of literature, much of it empirical, that find positive results for the integrative skills of contract sales organisations. Where principals and agents have exchanged long-term commitments such as training, joint marketing and integrated sales technology, customer satisfaction with both is high (Galunic & Anderson, 2000; Weinrauch *et al*., 2001; Crittenden & Crittenden, 2004). Jackson *et al*. (1999) found that 76.4% of manufacturers' representatives were engaging in some kind of team selling with their principals when the customer's information needs were high or the solution particularly complex. Having sales in-house does not *per se* add value (Stapleton & Hanna, 2002; Guenzi & Troilo, 2007). Counterbalanced with the possible value of the internal power of employed salespeople is the market presence and selling efficiency of external agents (Ross *et al*., 2005) and their freedom from role ambiguity (Mahajan *et al*., 1984).

Given the differing views on how sales skills might best be sourced, it is necessary to identify which specific skills have consistently been associated with the preference for employing salespeople in the few empirical studies in sales outsourcing. These are clustered around knowledge of a company's unique culture (which enables power internal relationships), being able to customise solutions and customer-specific knowledge and relationship-building skills (Anderson, 1985; Wilson & Zhang, 2002).

2.3.7.1 Knowing the firm

Some companies develop strong cultures. The organisational identity of customer-facing staff, including salespeople, has been correlated with better performance and achievement of targets, together with clarity of identity for the customer (Wieseke *et al*., 2009). Both interorganisational trust and interpersonal trust are important to purchasing managers (Zaheer *et al*., 1998), and can be personified in the salesperson – "it matters to me that (sales) people are committed to their company and position" (Alford, 2010, p. 4). It follows on from these findings that corporate identity, a feeling among both directors and employees about "who we are", is relevant to "make-or-buy" decisions (Santos & Eisenhardt, 2005).

Anderson (1985) was interested in the importance of company culture to sales outsourcing, and used a variety of indicators to test it; Krafft *et al*. (2004) also tested for the specificity of the company. Organisational climate has a significant effect on the motivation of sales representatives, but matters much less to manufacturers' representatives (Majahan *et al*., 1984). Ultimately, both Anderson (1985) and Krafft *et al*. (2004) focused on the length of time it takes for a sales recruit to learn about the company as the strongest indicator that a company has a differentiated culture. Their findings suggest that, despite the problems that a slow learning curve might present, an idiosyncratic company is more likely to vertically integrate its salesforce.

Inside knowledge of a complex, differentiated firm leads to internal influence and powerful relationships which make employed salespeople valuable to their customers, as well as their employers (Tellefsen & Eyuboglu, 2002). Strong collaborative working relationships with other departments to resolve problems, and the ability to engage in sales strategy discussion, are the "rare, valuable, socially complex and imperfectly imitable" (Menguc & Barker, 2005, p. 902) skills that lead to sales success. Based on Menguc and Barker's (2005) empirical work from the resource-based view, it is not just learning about an employer that is important. Productive involvement with the company and colleagues is the rent-creating skill, and one that perhaps could not be outsourced.

2.3.7.2 Knowing the solution

Practitioners have been advised to match their channels to product type (Friedman & Furey, 1999). The length of time and the cost to train a salesperson on the product/solution being offered to customers has been tested in the key studies of sales outsourcing as an indicator of channel type. Anderson (1985) and Krafft *et al*. (2004) found that the more training that was needed on a product, the more likely the firm was to have employed salespeople. An explanation is offered by a case study from Grønhaug and Haugland (2005) who observed that in the evolution of overseas sales channels, direct employment makes sense when the education needs of the customer are high, but exporters could switch to agents when the product is commoditised.

Notably, in an empirical study of sales outsourcing in UK manufacturing which supported the resource-based view, Wilson and Zhang (2002) found that product complexity was associated with vertical integration of the salesforce, and Rogers (2008) observed in the UK pharmaceutical sector that contract sales organisations were predominantly occupied with tactical detailing to general practitioners, while employed salespeople built relationships with secondary health care organisations where more complex products were required. There is therefore some evidence that the need for extensive knowledge of complex solutions would indicate vertical integration of the salesforce, and no apparent argument or evidence for the opposite.

2.3.7.3 Knowing the customer

A "core" skill makes a disproportionate contribution to customer perceived value, according to Hamel and Pralahad (1994). Intuitively, knowledge of the customer might be considered the most important for a salesperson, who is usually the most frequent interface between supplier and customer. A focus on customer value, to some theorists, is the most relevant driver of future firm performance (Slater, 1997; Reichheld, 2003). Specifically, the complexity of contact networks within customer relationships (multiplexity) has been correlated with improved sales growth and reduced sales volatility in a large longitudinal study (Tuli, Bharadwaj & Kohli, 2010), although the development of such networks is not without cost implications.

It has been argued that sales channel choice should be influenced by the customer (Palmatier *et al*., 2007), hence it is becoming increasingly important for the salesperson to add value to the customer (Tanner *et al*., 2008). Where salespeople need to build relationships with customers because of complexity, innovation or strategic interdependency, customer knowledge is strongly associated with the vertical integration of the sales function (Anderson, 1985), and the more complex the customer, the more likely it is that sales will be insourced (Wilson & Zhang, 2002). The importance of customer knowledge has been measured by the amount of time needed for training on customer specific knowledge. (Anderson, 1985; Krafft *et al*., 2004). However, this should not necessarily mean that all customers justify the investment in personal contact, or that they would want it (Wuyts *et al*., 2004; Rogers, 2007). Purchasing managers in the UK are notably spending less time with salespeople and more time online (Alford, 2010). Guenzi and Troilo (2007) found that "a direct sales force *per se* does not contribute to the company's capacity to create superior customer value" (p. 105).

The difficulty in generalising about the value of customer knowledge and relationship building is the diversity of customers. Some require closer relationships than others (Fiocca, 1982; Donaldson & O'Toole, 2000), or needs may vary according to the maturity of a business relationship (Jap, 2001). Consequently, it is not surprising to see particular categories of customer handled by contract sales organisations and others by employed salespeople (Rogers, 2008).

2.3.8 A granular approach to skills-based resourcing

Although empirical research gives mixed messages about the success of outsourcing in contributing to resource-generated "rents", identifying resource gaps is a critical part of strategy formulation and any lack of resource can be made up by purchases or strategic alliances (Grant, 1991). But whenever something cannot be achieved through markets, because suitable suppliers do not exist, suppliers are not competitive or there is an imbalance in information available, then the firm exists to deal with such market failures and develop unique capabilities (Roberts, 2004).

Whether to insource or outsource sales can be approached with the same analysis as "make-or-buy" in any other function. Empirical studies from the resource-based view have provided consistent arguments for insourcing sales when firm-specific capability is critical to value creation (Wilson & Zhang, 2002; Menguc & Barker, 2005; Peng *et al*., 2006). Three aspects of firm-specific capability have been noted from various strands of the sales outsourcing literature: knowledge of the employer leading to an ability to get things done in the supplying organisation, product/solution specific knowledge and customer-specific knowledge and relationship building skills that enhance the supplier's reputation. The role of these factors in predicting insourcing of the sales function has been particularly noted in Anderson (1985) and Krafft *et al*. (2004). It is perhaps because such skills might provide a better buying experience for the customer that they have been examined.

Nevertheless, there are instances where the skills of contract sales organisations can be more attractive. Non-specific, commoditised products might be best-handled by a firm focused purely on selling skills. Where contract sales organisation have higher levels of selling skills than a firm, all or part of the sales function is more likely to be outsourced (Anderson & Trinkle, 2005). Also, in some market segments and geographical areas, contract sales organisations might have better knowledge, in which case the sales function is more likely to be outsourced (Peng *et al*., 2006). In US texts on sales outsourcing, there are references to the local knowledge of manufacturers' reps in a geographical area - a state or even a county within a state (Novick, 2000; Anderson & Trinkle, 2005). When companies work across national boundaries, RBV in sales becomes even more important. Peng *et al*. (2006) found that in choice of new geographical market options, companies were more likely to use independent sales agents if the market was very distant and culturally different.

There are many types of knowledge and skills that might be needed in specific sales roles in business-to-business sectors. The body of competences required in an individual in a role would be a significant consideration for a sales manager deciding whether to employ someone or to engage a contractor. Exploring the role of skills requirements in their "make-or-buy" decisions would be an indicator of the predictive value of the resource-based view in the sales function.

2.3.9 Flexibility in the sales function

A need to reduce costs or to gain particular sales skills might prompt resourcing decisions, but it is also the case that the sales manager has to consider timescales in realising opportunities. Porter (1996) argued that companies do have a flexibility imperative. They need to make rapid response to markets to achieve best practice. This could be particularly true when the business environment is volatile.

Transaction cost economics predicts that activities will be insourced when there is business uncertainty. In the case of sales channels, Klein *et al*. (1990) found that environmental volatility predicted a subsidiary rather than agent in export markets, although Schuster and Keith's (1993) case study findings were contradictory and Klein's study found the opposite for conditions of environment diversity. More recently Stapleton and Hanna (2002) found that the more unpredictable the business environment, the higher the likelihood of internal sales.

In the case of sales outsourcing, sales agents may absorb considerable risk for their clients (Allegrezza, 2000). In the US manufacturers' representative model, the rep assumes all selling costs and is only paid commission on revenue generated. The client incurs no up-front or fixed selling costs (Anderson & Trinkle, 2005). Therefore, using manufacturers' representatives in business uncertainty has considerable advantages. However, when customer demand is uncertain, choice of channels has been suggested as a way of maximising opportunity (Sharma & Mehotra, 2007), and this is a better fit with the principles of "real options". Notably Brouthers *et al*. (2008) explain that real options would recommend an external solution whenever the outcome of an opportunity is particular uncertain.

In the UK, the increasing variety of outsourced options alongside in-house options include syndicated selling, dedicated "hot spot" teams, short-term contracts for individual "temps", as well as outsourcing particular product lines or customer segments (Rogers, 2009); i.e. a mixed model. Companies are interested in the ability to turn sales resource on and off quickly. That flexibility, which is linked logically to the interest in avoiding hiring and firing costs and risks, is a driving force, especially for industries and companies undergoing rapid change (Downey, 1995). The "lock-in" risk described by many observers of other types of outsourcing, such as IT (Bahli & Rivard (2003) is not necessarily relevant to sales outsourcing, since so many contracts are short-term (Rogers, 2009).

Reputational and governance risks are especially acute when companies enter markets with different cultures and laws (Kendrick, 2004; Whitmore, 2006), but there is strong evidence that where export markets are difficult for the principal to understand, sales agents or other types of third party alliances are used to reduce risk (Anderson & Coughlan, 1987; Klein *et al*., 1990; Brouthers *et al*., 2008; Li *et al*., 2010). Implicitly, where agents are used principals can exit markets relatively quickly.

In the pharmaceutical sector in the UK, companies have to be able to launch and withdraw products very quickly in response to listing or delisting by health trusts (Rogers, 2009), hence flexibility is described as the primary consideration in sales resourcing. Outsourcing selling leads to better understanding for the nature of demand and the relative strengths of competitors, which makes it desirable in volatile markets (Harrigan, 1985). However, achieving such benefits requires good management. Firms should be proficient in multiple sourcing methods, and manage uncertainty and share risk by outsourcing (King, 2006). Uncertainties can be reduced, risks minimised and flexibility improved through a combination of contract terms and risk management strategies (Ngwenyama & Sullivan, 2007) and information sharing (Chan, Wang, Luong & Chan, 2009).

Real options is not necessarily the foundation for the flexibility concept which appears in the outsourcing and sales outsourcing literature as a desirable aspect of organisational design and a necessary element of management processes (de Leeuw & Volberda, 1996), but they are related. Options are needed if flexibility is regarded as a strategic imperative. “Firms increase their chances of success by having a range of options that enhance flexibility” (Fredericks, 2005, p. 563). Flexibility itself is defined as the ability to adapt, in the short-term, medium-term and long-term, in response to known and unknown events, proactively or reactively and internally or externally (Golden & Powell, 2000), and is a term used alongside “responsiveness” and “agility” (de Leeuw & Volberda, 1996, p. 121). Outsourcing or out-tasking some activities on some occasions are options that managers capable of achieving flexibility might use in pursuit of better control of limited resources in uncertain conditions. However, managers may just perceive that they have learnt how to outsource because of an organisational need for “flexibility” (Rogers, 2009).

Flexibility has been advocated so that firms can achieve success in dynamic markets (Fredericks, 2005). From model-building, partial outsourcing is a choice that should, in the case of market uncertainty, lead to better production performance (Alvarez & Stenbacka, 2007) and this has some empirical support in the case of volume flexibility in manufacturing (Jack & Raturi, 2002). As Scott *et al*. (1988) opined, the advantage of flexible resources is that although in the short-term there might be higher productions costs, they reduce the costs of excess capacity or excess demand. Mix and volume flexibility are also indicators of supply chain agility (Braunscheidel & Suresh, 2009), but the authors found that both internal and external integration contributed to that, along with a market orientation and learning orientation.

Both customer-related and competitor-related responsiveness are needed in dynamic markets (Homburg *et al*., 2007), which in turn create the circumstances for flexible resources to be prepared (e.g. as Rogers (2009) explains for UK pharmaceuticals). Flexibility has also been examined, not just as a reaction to an uncertain business environment, but as a source of competitive advantage (Sawhney, 2006), which is the intention of the real options approach (Tiwana *et al*., 2007). Depending on the discernment that different aspects of flexibility are relevant to different strategies, it has been demonstrated that flexibility can improve a firm’s performance (Fantazy *et al*., 2009).

Just as it is important to discern between which aspects of flexibility are going to deliver the desired strategic output, it is also necessary to note that flexibility must be built in to the outsourcing model and/or contract. Flexibility is both an organisational design decision and a management capability (de Leeuw & Volberda, 1996). Organisations need to ensure that their arrangements with vendors are robust and modifiable. Ease of exit may not be significant to outsourcing success, but it is an essential aspect of risk management (Sia, Koh & Tan, 2008).

Partial outsourcing, particularly on a short-term basis, is closer to "real options" thinking than long-term total service outsourcing. If it is successful and absorbed in-house, it could also be perceived as building a dynamic capability. From the sales managers' perspective, tactical use of contract sales organisations is perceived to be a response to a need for "flexibility" (Rogers, 2009). Ironically, Anderson *et al*. (2003) posited that sales managers were more likely to cope with an unpredictable future by exercising the option to employ salespeople, but business uncertainty since 2007/8 may have made that approach untenable.

Just as contract manufacturers can do a variety of things for a variety of clients (Noonan & Wallace, 2004), contract sales organisations can be used in a variety of ways, and entry and exit is relatively straightforward (Rogers, 2008). The principles that Zoltners *et al*. (2006) attribute to a company's start-up phase, when they need third party sales partners to enter markets quickly, but switch to employed salespeople when growth seems assured, can be assigned to many sales projects within established organisations.

In marketing and sales functions, it is not uncommon to find multiple channels (Dutta *et al*., 1995), channels targeted at different customer segments (Gary, 2005), or sales activity contracted out for specific products, campaigns, process steps or geographical areas (Rogers, 2009). An example of the granularity of outsourcing decisions occurs in Watjakrakul and Drennan's (2005) study of e-mail campaigns, where "make-or-buy" decisions occurred at each of seven steps in the process in the case study companies. Given the number of sales outsourcing consultants in trade directories in the UK offering a variety of service levels, “real options” seem to be available to sales managers interested in optimising their resource allocation.

Considered both complementary to the resource-based view and transaction cost economics by Lieblein and Miller (2003) in an empirical study, real options theory has more nuances on predictions of organisational form (Leiblein, 2003), and is more difficult to link to the broader literature on outsourcing and sales outsourcing. However, in a recent exploratory study, the quest for flexibility was the highest priority for sales managers who were outsourcing sales activities (Rogers, 2009), marginalising issues of cost and skill. Although not specifically using real options theory to manage risk, the concept of flexibility seems to be the practitioners' terminology for exercising options when responding to change.

2.3.10 Summary

The cost of an activity, which is only part of the transaction cost equation, is clearly a discussion that a sales manager would expect to have when deciding whether to "make-or-buy". Recognition of the cost of control, which transaction cost economics regards as truly predictive, has been observed. Acquiring and retaining appropriate skills levels encompasses both transaction cost and resource-based view approaches to predicting "make-or-buy" preferences, and the desire for flexibility can be related to the predictions of real options theory. Elements of all three theories appear in discussions about sales outsourcing, and elements of all three should be considered in the design of exploratory research on this topic.

However, given that outsourcing of sales activities has not been embraced as widely as outsourcing in other functions (Anderson *et al*., 2003), it is likely that there are moderating factors between a sales manager's inclination to "make-or-buy" and outsourcing behaviour. These are discussed in the next section.

2.4 Moderating factors

In section 2.2, this review examined three theoretical perspectives which are focused on explaining why firms design the boundaries of their organisation in particular ways and in section 2.3 considered how these perspectives may play some part in a sales manager's decision whether or not to use contract sales organisations within his/her resource plan. Nevertheless, between the rationale for outsourcing and outsourcing behaviour, there may be a number of moderating factors (Espíno-Rodriguez & Padrón-Robaina, 2004).

Based largely on the observations of Anderson (1985; 1988; *et al*., 2003), whose work on the outsourcing of sales is the most extensive in the literature, with evidence also drawn from the general literature on outsourcing, this section identifies some practical considerations that are likely to deter the use of contract sales organisations, even if there are good strategic reasons to do so. These reasons are: a constrained supply market, the lack of expertise in managing outsourcing, a desire not to stray too far from accepted norms in the industry, and concerns about the costs of switching in and out of contract arrangements and perceptions of performance/efficiency. These factors are chosen because Anderson recommended that they should be explored, and to date they have not been explored within the specifics of sales outsourcing. A summary of key studies is included in table 11 at the end of this section.

2.4.1 Identifying moderating factors

It is interesting to note that although Erin Anderson did empirically test for the effect of industry norms on sales outsourcing in 1988, the moderating factors mentioned in her 1985 article were not pursued.

Respondents in Anderson's 1985 study reported that there should have been a question about the availability of good manufacturers' representatives. She also raised the question of perceptions about the relative efficiency and performance of sales functions, whilst acknowledging that information might not be available or be closely guarded. Finally, she questioned what specific capabilities might be required to manage third party sales organisations effectively.

In 2003, Anderson *et al*. published a paper discussing why sales outsourcing was not a common phenomenon in North America. The four forces that they posited as inhibitors included the nature of the sales function with its ambiguous standards of performance, the influence of the sales director, the lack of legitimacy of sales outsourcing and the nature of the supply market. It would be difficult to explore sales director's perceptions of their own powerbase, but their perceptions of other inhibitors could be explored in a qualitative study. The 2003 paper returned to the issue of sales managers' perceptions of a poor supply market inhibiting sales outsourcing, arguing that some of these perceptions are vested in reality. It revisited the question of the "norms" in sales resourcing (Anderson, 1988) and perceptions of the limited legitimacy of sales outsourcing raised by Weiss *et al*. (1999). It also observed that competency in managing outsourcing would be an important factor in sales managers' perceiving that they could succeed with outsourcing in an environment where information about relative performance might be surprisingly difficult to access. Within the interviews, these perceptual factors may be explored across different sales managers with experiences of different industry sectors and types of company.

2.4.2 Constraints in the supply market

Classical economics suggests that some specialist tasks do not generate enough demand to trigger the emergence of specialist firms to offer them, so other firms keep those tasks in-house until they become big enough to spin them off (Stigler, 1951). To some degree, this explains some of the outsourcing activity of the past thirty years. In her early work on the "make-or-buy" decision in sales, Anderson (1985) suggested that some decisions were influenced by the "availability of "good" reps in a district at the time" (Anderson, 1985, p. 252). Sales managers have demonstrated persistent concern that the good reps are scarce or locked in to competitors (Anderson *et al*., 2003). Although that may be less of a problem with short-term contracts for particular activities versus outsourcing all the selling in a geographical area to a manufacturer's representative, perceptions about quantity and quality in the supply market are relevant to the discussion of buying anything.

Sourcing strategy has for a long time held risks in the supply market to be a constraining factor when choosing suppliers (Kraljic, 1983). Lonsdale (1999) argued strongly that some of the outsourcing failures of the 1990s could be attributed to firms becoming dependent on their outsourcing suppliers. "Managers must be careful about outsourcing into a limited supply market" (Lonsdale, 1999, p. 179). If there is a small quantity of suppliers in a market, or the suppliers in a market cannot deliver to the required quality, any *prima facie* case for outsourcing should be overruled because the potential for dependence will cause problems in the longer term (Lonsdale, 1999).

The implications of supply market conditions are relevant to outsourcing decisions (McIvor, 2010), but there is relatively little discussion of the nature of supply market risk in the outsourcing literature. It has been observed that the "development of sourcing strategies is influenced by the availability of the service providers in the market" (Ventovuori, 2006, p. 263), and that managers would outsource more services “provided that there are suppliers able to offer good services” (Espíno-Rodriguez & Padrón-Robaina, 2004, p. 301). The best evidence for the importance of the supply market as a moderating factor comes from a scenario-based empirical study. Mantel *et al*. (2006) found that purchasing decision-makers are acutely aware of the strategic vulnerability inherent in supply risk. In particular, the number of suppliers in a market affects perceptions of vulnerability and purchasing decision-makers are less likely to outsource in those circumstances (Mantel *et al*., 2006). In the case of manufacturers’ representatives in the USA, Anderson *et al*. (2003) noted that their narrow geographical focus was a weakness affecting sales managers’ perceptions of choice.

2.4.3 Lack of expertise in managing outsourcing

Although outsourcing may be driven by the desire to give up managing an activity, it does still have to be managed (Lonsdale, 1999). Anderson (1985) noted that sales managers might have concerns about the contractual arrangements and working arrangements with third parties. Directing a non-integrated sales function has particular challenges which might not suit the dynamics of the firm. It has recently been observed (Piercy *et al*., 2012) that sales manager control competences are an important moderating factor in the successful implementation of strategy where salespeople are employed, and it seems logical that the same should be true with contractors or a mix, although the competences may be different.

Behavioural control and insourcing is perceived to be desirable when solutions are complex and sales cycles are long, since these circumstances require considerable non-selling activities and customer support (Anderson, 1985). Recently authors have argued that sales managers must “move people, not manage them” (Dixon & Tanner, 2012, p. 12). Coaching has taken precedence over performance management through monitoring outputs. Sales managers are urged to develop strong relationships with salespeople, as high quality relationships in the leader-member exchange (LMX) in the sales function have a direct effect on the salesperson's performance - better relationships lead to better performance and to lower turnover (which reduces costs) (DeConinck, 2011).

Better relationships, characterised by sales managers demonstrating consistent and supportive behaviour, also ensure better job satisfaction and organisational commitment (Flaherty & Pappas, 2000). Leadership qualities in sales managers, such as inspirational vision, setting challenges and instilling confidence, being a good role model and encouraging group goals are perceived to influence salesperson performance and organisational citizenship behaviour positively (MacKenzie, Podsakoff & Rich, 2001). Moreover, transformational leadership by sales managers has a positive effect on firm performance (Panagopoulos & Avlonitis, 2010).

Where performance is associated with internal leadership, a sales director might be concerned about the firm's capability to gain effectiveness and efficiency from outsourcing. The capability to outsource has been proven to be a success factor in achieving superior results from outsourcing (Kakabadse & Kakabadse, 2002a; Leiblein & Miller, 2003; Thorpe & Morgan, 2007). Even trivial outsourcing can go wrong if it is badly managed, so lack of this capability might well override a good case for outsourcing (Alexander & Young, 1996).

Managing outsourcing arrangements is somewhat different from standard supplier management (Fan, 2000; Bartholémy & Quélin, 2006) and requires more effort than has been expected (Marshall & Heffes, 2005). Managing third party sales channels makes even more specific demands (Magrath & Hardy, 1987; Friedman & Furey, 1999; Novick, 2000; McQuiston, 2001). There is a noted correlation between experience and success (Díez-Vial, 2007) and lack of experience and problems (Ngwenyama & Sullivan, 2007). The lessons of experience seem to be concentrated in two strands of the literature – the importance of contract design and the importance of relationship management.

Contract management is a competence that provides a foundation for all arrangements with outsourced service providers. If interfirm management structures and procedures are well-developed and aligned to deal with potential contractual hazards, performance problems will be mitigated (Conklin, 2005; Anderson S. W. & Dekker, 2005; Mayer & Salomon, 2006). Although it requires specific procedures and interfaces, if a contract is thorough enough, many things can be successfully outsourced (Bartholemy & Quelin, 2006). Formalisation and measurement eliminates the ambiguities that cause business contracts to fail (Daugherty *et al*., 2006). In the case of short-term tactical arrangements with vendors, contract management competence may be enough for firms to realise success. Nevertheless, a considerable number of studies of outsourcing focus on the importance of relational skills in addition to process excellence.

Since co-operative behaviours are associated with higher productivity (Faulkner & de Rond, 2000), it is reasonable to expect the pursuit of co-operative norms in firms' relationships with their outsourcing vendors. External integration can be particularly important in conditions of intense competition and high levels of uncertainty (Braunscheidel & Suresh, 2009). A number of empirical studies have noted that pro-active relationship management improves the results from outsourcing (Brown *et al*., 2000; Judge & Dooley, 2006; Handley & Benton, 2009). Indeed, good relationship management has been observed to account for 25% of variance in outsourcing performance, since good relationship management drives down transaction costs and risk (Handley & Benton, 2009). Partnership quality delivers outsourcing successes such as achievement of cost savings, refocus on the core business and access to better capabilities (Sia *et al*., 2008). Benefits from relational approaches are also noted in channel management (Anderson & Weitz, 1989; Jap & Anderson, 2003) and sales outsourcing in particular (McQuiston, 2001).

Even where there is geographical distance, such as export markets, if management of agents is good, campaigns to improve sales are more successful (Katsikea & Morgan, 2003).

The characteristics of good relational management include appropriate rewards (Mayo *et al*., 1998), trust building (Judge & Dooley, 2006), mutual investments including training (Anderson & Weitz, 1992; Mayo *et al*., 1998; Jap & Anderson, 2003; Gulati & Bristow, 2005), robust interfirm processes (Greenberg, Greenberg & Antonucci, 2008), information exchange (Mayo *et al*., 1998; Gulati & Bristow, 2005), good interpersonal relationships (Anderson & Weitz, 1989; Wynarchzyk & Watson, 2005) and appropriate monitoring and measurement of results (Spriggs, 1994).

Each of these can be complex. For example, trust consists of confidence that contractual terms will be respected, that each party has the confidence to do what they have promised to do, and goodwill between individuals and teams including the ability to engage in joint dispute resolution (Langfield-Smith & Smith, 2003). If supplier management is not well-resourced (Lonsdale, 1999) or the vendor is not involved in what their customer is trying to achieve (Ryals & Humphries, 2010), then problems can be expected. In particular, the use of coercive power or influence leads to channel partner dissatisfaction and exit (Mayo *et al*., 1998). Cox, Watson, Lonsdale & Sanderson, (2004) noted a "considerable gap in practitioner competence" (p. 369). Power imbalances and internal politics can mean that companies have problems with implementing effective relationship management in their supply chains (Cox *et al*., 2004; Shervani *et al*., 2007). Relationships are more likely to be misaligned and suboptimal, or even dysfunctional (Cox *et al*., 2004).

Creative and consistent support is appreciated by the people trying to provide the outsourced service (Magrath & Hardy, 1987; Merrit & Newell, 2001). It enhances role salience for manufacturers' reps (Gulati & Bristow, 2005), increases commitment (Anderson & Weitz, 1992), ensures continuity (Anderson & Weitz, 1989) and influences the sales agents' resource allocation (Anderson *et al*., 1987).

Ansoff (1987) suggested that all desirable change has to be followed by an assessment of the company's chances of making a success of it. Choice of governance form should be influenced by how good managers are at leveraging the new capabilities, reducing risks and coordinating effort (Leiblein, 2003). Given the "need to continually and effectively manage" (Lonsdale, 1999, p. 181) outsourcing arrangements, if the management capability is lacking, a decision-maker could reasonably expect to defer outsourcing until some skills development has been done (Cox *et al*., 2004). Perceptions about the different skills required to manage employed salespeople versus contractors is a possible moderating factor that should be explored.

2.4.4 The influence of industry "norms"

"Firms will be more likely to take a particular strategic action if other firms have taken that same action" (Gimeno *et al*., 2005, p. 298).

The theoretical underpinning for the resource-based view is that a firm's competitive advantage comes from uniqueness. In reality, many firms appear to prefer similarity to competitors. It is possible that firms act independently but they just happen to have similar capabilities; or perhaps firms are acting similarly because they perceive the external signals in the business environment in a similar way. In contrast to the RBV view of independent strategic choice, mimetic theory notes that firms within industries often act in very similar ways (i.e. they demonstrate "clustering behaviour") and therefore the behaviour of other firms influences a firm's decision-making process (DiMaggio & Powell, 1983; Deephouse, 1996; Dijksterhuis *et al*., 1999; Kock, 2005; Gimeno *et al*., 2005). Deephouse (1996) found (with some caveats) that “organizations that conform to the strategies used by other organizations are recognized by regulators and the general public as being more legitimate than those that deviate from normal behavior” (p. 1033).

The mimetic approach suggests that similarities between firms’ strategies are caused by interaction between actors (competitors and/or supply chain partners) within the industry. The extensive use of reference accounts in business-to-business marketing, together with the popularity of benchmarking as a means to raise standards of operational effectiveness (Guler, Guillén & MacPherson, 2002), suggests that decision-makers are comfortable with following others as a means of reducing business risk. For example, if one firm does something to improve its competitive position, its competitors will make a matching response to neutralize it (Gimeno *et al*., 2005). In a risk-averse environment, managers will copy other successful firms in order to avoid penalties for failure. A bad decision is not so bad if others make the same mistake. Follower firms are being defensive; they are trying to minimise risk through a defensive competitive response (Dijksterhuis *et al*., 1999; Gimeno *et al*., 2005).

Mimetic clustering has been noted in organisational design, although it has been suggested that the “*status quo*” has to be delivering significantly bad outcomes before change is considered (Shimuzu & Hitt, 2004). Although it is not clear whether more or less vertical integration is better, changing organisational form to reduce costs is successful, and firms should follow the industry norm to achieve optimal performance (Mpoyi & Bullington, 2004).

A standard response to the challenge of change is to look for legitimacy and success in the industry and try to imitate it (DiMaggio & Powell, 1983; Deephouse, 1996; Kock, 2005). This seems to apply in the case of outsourcing sales. Modelling suggests that in the case of adopting in-house sales or using a third party, if demand is differentiated, firms might sustain different channel models, but if demand schedules are similar, firms will tend to imitate each other (Gal-Or, 1999).

Mentioned briefly in her 1985 article, the influence of the behaviour of competitors was explored by Anderson in detail in 1988. In a study of the Darwinian economics of "make-or-buy" in the sales function, she found that prevailing practice guides sales managers' choices. She argued that competitive markets force optimal sourcing behaviour, especially in uncertain conditions, where efficiency appears to be correlated with industry norms. However, in predictable conditions, conformity is not so necessary (Anderson, 1988).

Regardless of the existence of manufacturers' representatives with good reputations, a manufacturer may bring sales in-house if decision-makers believe that highly reputable firms only use in-house sales (Weiss *et al*., 1999). Copying based on the desire for approval (legitimacy) takes place even if companies have evidence that they should not follow the herd. It can have a negative effect on a firm's profitability (Kock, 2005; Gimeno *et al*., 2005; Barreto & Baden-Fuller, 2006). Financial markets, legislators and the media may encourage firms to copy (Guler *et al*., 2002; Kock, 2005), or powerful players in a supply chain may encourage dependent companies to adopt certain behaviours (Guler *et al*., 2002; Grant, 2007). Novick (2000) refers to Wal-Mart trying to persuade their suppliers not to use manufacturers' representatives.

Obviously, firms in an industry will observe each other. Borrowing from rivals' behaviours can be seen as a way of economising on searching for information. In case of doubt, mimicking successful role models is a way forward (Dijksterhuis *et al*., 1999; Gimeno *et al*., 2005). "Spillovers" between the actions of some organisations in a peer group increase the value of an action. E.g. adoption of total quality management in one firm is enhanced if all the firms in the supply chain adopt it (Guler *et al*., 2002; Gimeno *et al*., 2005). However, perceived best practice does not always transfer well from one organisation to another. The comparability of exemplars may be weak and may not lead to similar results (Bretschneider, Marc-Aurele & Wu, 2005; Kock, 2005). Nevertheless, firms face a trade-off between conforming and performing because of the expectations of influencers such as investment analysts and the media (Deephouse, 1996; Kock, 2005; Barreto & Baden-Fuller, 2006).

Dijksterhuis *et al*. (1999) looked specifically at the need for companies to find new organisational forms to respond to a chaotic environment, and theorised that phenomena such as the trend for downsizing and drive for flexibility in the 1980s are evidence of “co-evolution” among firms. Particularly in uncertain situations, perceived best practice tends to be copied (Miranda & Kim, 2006). Managers construct a reality of shared values and assumptions in pursuit of survival in periods of rapid change (Dijksterhuis *et al*., 1999). For example, decision-makers at Hewlett Packard perceived that the company would not have been able to compete in the 1990s if it had remained in its highly vertically integrated form of the 1980s. Outsourcing enabled the company to accelerate its time to market for new products (Lonsdale, 1999).

The tendency of copying to reduce risk may be deeply endemic. In psychology and sociology, it is usually assumed that individuals have a predisposition to conformity. An individual will suffer less anxiety if they do things that are accepted. Senior managers of the key players in an industry may see themselves as some kind of peer group (Dijksterhuis *et al*., 1999; Guler *et al*., 2002; Gimeno *et al*., 2005). Given the “normative” approach to changes in the boundaries of the firm endorsed by Anderson (1988), even though they may be originally seated in perceptions of rationality, it will be necessary to explore whether sales insourcing or outsourcing behaviour is moderated by competitor activity.

2.4.5 Perceptions of switching costs

Although there are indications in research about the boundaries of the firm that misalignment between integration and the market can lead to lower profitability or failure (Macher & Richman, 2008), companies do get “locked-in” to outsourcing or agency arrangements (Pederson, Petersen & Benito, 2002; Whitten, Chakrabarty & Wakefield, 2010), and vendors can get locked-in to particular clients (Heide & John, 1988). Transferring between in-house and outsourced activities results in costs to change, such as recruitment and training of the new employees/ contractors, and termination of old contracts and creation of new ones (Weiss & Anderson, 1992; Pederson *et al*., 2002).

Switching costs increase dependence between vendor and client, but do not necessarily increase commitment. Therefore companies are likely to try to extricate themselves from unbalanced relationships (Joshi & Stump, 1999). This partly contradicts Tjosvold’s (1984) findings that power imbalance could be overcome by co-operative governance. However, switching costs are multi-dimensional and their impact on management decisions is likely to constrain change (Whitten & Wakefield, 2006).

Weiss and Anderson (1992) examined the effect of switching costs in sales outsourcing. They found that companies had a realistic awareness of set-up costs, but their perceptions of the take-down costs, which include contract termination and the market reaction to it, were not as good. Fear of the reactions of individual reps and the rep network was a significant factor in their behaviour. Perceptions of switching costs deter sales managers from changing from agent to in-house (Weiss & Anderson, 1992; Pederson *et al*., 2002). These findings suggested that due to misperceptions about switching costs, sub-optimal arrangements were tolerated. Logically, if costs sunk in agency arrangements deter conversion to in-house, there may also be circumstances where sunk costs in employed staff deter outsourcing.

The expectation of switching costs is a potential moderating factor. However, the research identified on this topic is based on all-or-nothing scenarios, i.e. total outsourcing of information technology services or total outsourcing of an overseas territory to a sales agent. It has already been noted that the use of contract sales organisations in the UK would be more accurately described as "out-tasking" of small-scale activities on a short-term basis. This may reduce the impact of switching costs, although concerns about dependency can be explored in the context of the quality of the supply market and concerns about vendor behaviour.

2.4.6 Ambiguous performance

A consideration of moderating factors would not be complete without reference to Anderson *et al*.'s (2003) comments about the ambiguous nature of performance in the sales function. The advantage of studying the sales function ought to be that the performance measure of most interest is sales growth (e.g. Batt, 1999), and this is usually a figure that sales managers know very well. Despite expectations that sales revenue is a very visible indicator of performance, the difficulty of linking inputs with outputs has been used as an indicator for insourcing, equated with the transaction cost concept of "uncertain behaviour". As such, whether the desire for control is an antecedent of insourcing or a factor moderating outsourcing is difficult to discern.

Colletti and Chonko (1997) observed that there are several indicators of a high performing sales function. It is unlikely that these indicators are measured consistently across organisations. It may be possible to prompt sales managers for their perceptions of their company's comparative performance on the Colletti and Chonko indicators, but it is subject matter that might not be available or that might be considered commercially sensitive (Anderson *et al*., 2003). If the indicators are not measured, guesses might be made, or respondents might repeat "folklore". Managers may not know what is going on (MacDonald & Hellgren, 1999) or managers may even create and manipulate perception errors (Mezias & Starbuck, 2003). Logically, managers have to perform as well or better than competitors (Colletti & Chonko, 1997: Mezias & Starbuck, 2003), but in some firms a trend towards improvement is acceptable.

Recent studies have suggested that the dimensions of sales performance, particularly in business-to-business sectors, are multi-faceted. Sales performance is integral to a company's strategy, but the combination of outcomes and behaviours within internal and external contexts is very complex, and getting more complex. Extant studies have explained only minor aspects of it (Zallocco, Bohman Pullins & Mallin, 2009; Verbeke *et al*., 2011; Evans, McFarland, Dietz & Jaramillo, 2012). Both sales managers and salespeople find it difficult to articulate "effectiveness". Salespeople in particular think that sales performance is intimately linked with the customer's perceptions. A breadth and variability in sales performance measures is found in practice, but relationship measures, adaptive selling behaviours and team selling are not among them, even where sales managers would like them to be (Zallocco *et al*., 2009).

The extant literature on sales outsourcing focuses on the factors that predict the outcome of "make-or-buy" decisions, but do not give us any information about the outcomes of those decisions. A qualitative study has the potential to explore both antecedents and their perceived effect. However, given observations about the availability and confidentiality of "effect" information, qualitative responses about success in managing insourcing or outsourcing might be as close as a researcher can get to whether or not sales outsourcing improves performance. As Anderson *et al*. (2003) note: sales performance is multi-faceted, and because it has no real baseline, comparisons are difficult to observe.

Even in the general outsourcing literature, no precise relationship has yet been established between outsourcing and measures typically used to judge the performance of companies (Bustinza, Arias-Aranda & Gutierrez-Gutierrez, 2010), despite many studies of outsourcing looking for them. Some recent studies find that outsourcing does impact favourably on performance (Singh, 2009), others that it has a negative effect (Weigelt, 2009) or neutral effect (e.g. Bengtsson, 2008; Pentina & Hasty, 2009) or mixed effect (Bardhan *et al*., 2007). Notably, a study of 51 companies' performance over four quarters after major outsourcing decisions presented neutral results (Jiang *et al*., 2006), and Mpoyi and Bullington (2004) found that changing from insourcing to outsourcing or vice versa improved performance and it was difficult to discern which was the better move. Kotabe, Mol, Murray & Parente (2012), focusing on market share performance, observed a negative curvilinear effect, suggesting that there is an optimum level of outsourcing beyond which negative effects are produced.

There may be intervening factors. Gilley and Rasheed (2000) cited firm strategy and environmental dynamism as moderators. Bustinza *et al*. (2010) demonstrate a relationship between outsourcing and better competitive capabilities, which may be an indicator of better performance in the long-term. There may indeed be timing factors as well. Novak and Stern (2008) suggest that outsourcing is positively associated with initial performance in product development, but over the whole product life cycle, vertical integration provides better performance. Salimath, Cullen & Umesh (2008) found evidence that firms gain most from outsourcing when it is aligned to their growth configuration.

In any event, some researchers have observed that the relationship between performance and outsourcing is not linear (Rothaermel *et al*., 2006; Kotabe & Mol, 2009). There is an optimal (and sometimes elusive) mix between vertical integration and outsourcing that maximizes financial performance. Hybrid organisation also has support in the case of "downstream" outsourcing (including sales outsourcing) (Rangan *et al*., 1993). Hybrid models make the examination of real performance metrics an extremely tricky mathematical exercise, and explain the variety of findings from empirical studies.

As in the case of export performance, performance at the organisational level and at the venture level is multi-faceted. Matthyssens and Pauwels (1996) agree with Chakravarthy (1986) that financial performance criteria are limited, as they focus on shareholder value, thus excluding the experience of some of the firm's stakeholders, and they can only really be judged historically. Even where researchers have been able to examine links between outsourcing and published performance metrics, some have observed that the perceptions or judgments about service performance may be different. Ramachandran and Gopal (2010) found managers' subjective assessments of the process performance of outsourced IT services to diverge considerably from objective outcomes.

Managers' perceptions of outsourcing are inter-related with their past experiences (Fowler & Jeffs, 1998; Feeny & Smith, 2008), which creates the framework for their bounded rationality. It has been observed within transaction cost economics that difficulty in measuring performance of sales resources leads to a preference for insourcing, and it has been observed in a variety of outsourcing studies that perceptions of a lack of expertise in managing outsourcing to achieve superior performance with it will inhibit outsourcing behaviour. It is beyond the scope of an exploratory study to address Anderson's 1985 question about the real performance outcomes of sales outsourcing, but it may be possible to identify if information on the link between resourcing decisions and performance is sufficient to provide an iterative loop in a perceptual model.

2.4.7 Moderating factors and sales outsourcing

There is very little evidence about moderating factors in the sales outsourcing literature, but matters observed in the general outsourcing literature have been discussed in the light of inhibitors mentioned in Anderson *et al.*'s discussion paper in 2003. The benefit of an exploratory study is that potential moderating factors can be discussed with sales resourcing decision-makers, to establish whether evidence noted in other functions has any resonance with them.

Table 11: Sources for moderating factors

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Nature of the supply market				
Kraljic	1983	Theory building	Purchasing investment	The horizontal axis of this author's model is focused on risk in the supply market.
Anderson E.	1985	Empirical	TCE in sales	Factors not examined – availability of suitable CSOs.
Lonsdale (most cited on this?)	1999	Case study of HP	Risk management in outsourcing	Firms should not outsource into a limited supply market – it will result in dependency.
Anderson *et al.*	2003	Theory-building	Vertical integration in sales	Perceptions that there are not enough good MRs.
Ventovuori	2006	4 case studies	FM outsourcing	Supply environment must be taken into account.

Authors	Date	Type of research	Context	Relevant findings
Ability to outsource				
Anderson E.	1985	Empirical	TCE in sales	Factors not examined – ability to manage sales agents/MRs.
Leiblein & Miller	2003	Empirical; 469 make/buy decisions in 119 firms	Comparing TCE with RBV and real options theory	Moderating factors are a firm's capabilities or experience and product/market diversity.
Ability to outsource is associated with better performance from outsourcing				
Alexander & Young	1996	Opinion	Outsourcing management	Even trivial outsourcing goes wrong if it is badly managed.
Friedman & Furey	1999	Book	Channel management	List prereqs for successful channel management.
Faulkner & de Rond	2000	Book	Co-operation theory	Associated with higher productivity, especially on complex tasks.
Faulkner & de Rond	2000	Book	Co-operation theory	Co-op behaviour more successful than cost/skill advantage in explaining long-term success of alliance.
Fan	2000	Exploratory; based on 10 UK companies	IT outsourcing	It is not standard supplier management – outsourcing needs to be bespoke.
McQuiston	2001	Theory building	Good relationships between principals and manuf reps	List of quant and qual benefits including shared goals, good communications, mutual profitability, etc.
Kakabadse & Kakabadse	2002	Book, based on research (and article)	Smart sourcing	Best practice vendor management achieves better results from outsourcing.
Marshall & Heffes	2005	Commercial research	Failure of outsourcing	62% of respondents said there is more management effort than expected.
Daugherty *et al*.	2006	Exploratory	Outsourcing success	Collaboration pays off.
Thorpe & Morgan	2007	Empirical; 115 marketing managers, EU	Strategy implementation	Degree of top-down imposition needed for success, alongside some fostering of co-operation.

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Contract design is a competence				
Zhu *et al.*	2001	Comment	Outsourcing process	Excellence required in planning, developing, implementing and evaluation.
Conklin	2005	Exploratory; case study	Partnerships	Strong interfirm governance important for risk mitigation.
Anderson S. W. & Dekker	2005	Empirical; 858 transactions for IT	Contractual hazards	Management structures aligned with potential hazards mitigate performance problems.
Mayer & Salomon	2006	Empirical; 405 service contracts	Contractual hazards	Ability to manage hazards can be a firm-specific capability.
Barthélemy & Quélin	2006	Empirical; 82 outsourcing contracts	Outsourcing management	Requires specific procedures and interfaces – anything can be outsourced if the contract is "dense" enough.
Daugherty *et al*.	2006	Exploratory	Outsourcing success	Formalisation eliminates ambiguities; recommend list of metrics.
Shervani *et al.*	2007	Empirical; 40 firms	TCE moderating factor – market power	Larger firms may be able to exert more power for non-integrated contractors to conform;

Authors	Date	Type of research	Context	Relevant findings
Relational skills are also a competence				
Magrath & Hardy	1987	Opinion	Channel management	Creative and consistent support needed.
Anderson & Weitz	1989	Empirical	Outsourcing management	Stable dyads characterised by cordial interpersonal relationships.
Brown *et al.*	2000	Empirical; 395 hotel managers	Governance mechanisms	Managers should focus effort on effective relational exchange.
Wynarchzyk & Watson	2005	Empirical; 211 UK firms 1993-1999	SMEs and partnerships	Marked preference for informal approach to doing business – trust in the network.
Judge & Dooley	2006	Empirical; 158 healthcare orgs	Strategic alliances and TCE	Expertise in trust-building as important as contractual safeguards.
Muehlberger	2007	Case study	Outsourcing and dependency	Hierarchical outsourcing is not very different from employment.
Handley & Benton	2009	Empirical; 198 sourcing execs	Outsourcing as a business process	Performance is significantly influenced by proactive relationship management.
Ryals & Humphries	2010	Exploratory; 2 in-depth case studies	Manuf make-or-buy	Failure caused by not involving the vendor in strategy and poor rel management skills.
Mutual investment is also important (part of relationship building)				
Ansoff	1987	Opinion	Change management	Opportunity identification must be followed by assessment of the company's chance of making it successful.
Lonsdale	1999	Exploratory; case study	Outsourcing management	Well-resourced supplier management; reduce switching costs by dual sourcing.
Jap & Anderson	2003	Empirical; 300 buyers and suppliers	Partnerships	Goal congruence not the best indicator of performance, but mutual investment.

Authors	Date	Type of research	Context	Relevant findings
Experience also matters				
Frazier & Summers	1984	Empirical; 184 auto dealerships	Interfirm influence	Influence involves anticipating what is needed and when.
Barthélemy & Quélin	2006	Empirical; 82 o/s contracts	Outsourcing management	Requires specific procedures and interfaces – anything can be outsourced if the contract is "dense" enough.
Ngwenyama & Sullivan	2007	Exploratory; 2 case studies	Outsourcing management	Lack of experience causes problems.
Díez-Vial	2007	Empirical; 155 firms in Spanish meat industry	Managing vendors	Many years experience leads to successful management.
Relational exchange capabilities of principals matter to sales agents				
Anderson *et al*.	1987	Empirical; 71 MRs	How do agents decide where to spend their time?	Aspects of relationship also relevant to resource allocation.
Anderson & Weitz	1989	Empirical; 690 dyads	Continuity between manuf and mrs	Importance of interpersonal relationships.
Anderson & Weitz	1992	Empirical; 378 dyads	Pledges between manuf and mrs	Idiosyncratic investments increase commitment.
Merritt & Newell	2001	Empirical; 144 MRs	How do agents rate principals?	Product, sales and relationship quality all important.
Gulati & Bristow	2005	Empirical; 317 MRs	Investments that might enhance MR perceptions of importance of rel	Information exchange and relationship specific investments by manu and rep enhance role salience.

Authors	Date	Type of research	Context	Relevant findings
"Industry norms"				
DiMaggio & Powell	1983	Theory-building	Why are there homogenous org forms and practices?	Coercive/mimetic/normative. Uncertainty encourages imitation. An industry model/benchmark is copied.
Anderson E.	1988	Empirical; 11 firms with 92 sales districts	"Make-or-buy" in sales – is "prevailing practice" best decision?	Most efficient to conform in uncertain environments, it may pay to be different in more stable environments.
Deephouse	1996	Empirical; banking sector in one state, 1985-1992	Isomorphism	Orgs that conform to what regulators and media expect are regarded as more legitimate.
Weiss *et al.*	1999	Empirical; 258 managers	Reputation management and sales structure	Perceptions of relative reputations of self, rep and "norms" affect choice.
Guler *et al*.	2002	Empirical; 1992-1998; ISO data sources	Spread of ISO 9000	States and global companies are a coercive force for imitation.
Shimizu & Hitt	2004	Theory-building based on examples	Org barriers to strategic flexibility	*Status quo* preferred until outcomes are really bad.
Kock	2005	Computer simulations	Influence of stock market on firm behaviour	Learning from stock market encourages quasi-collusive behaviour that may be sub-optimal; learning from product/market better.
Gimeno *et al*.	2005	Empirical; US telecoms 1985-95; 43 firms	Clustering of internationalisation moves	Domestic rivalry leads to mimicry in internationalisation; to achieve competitive balance (imitation may have poor performance outcomes).
Barreto & Baden-Fuller	2006	Empirical; 26 Portuguese banks 1988-1996	Conform or perform	Legitimacy-based imitation produced negative effect on profitability.
Miranda & Kim	2006	Empirical; 214 USA local authorities	IT outsourcing	Uncertainty leads to copying best practice - outsourcing
Grant	2007	33 supply chain partnerships	Opportunism in co-operative exch cases	In some market cultures, there is more opportunism than others.

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Switching costs				
Heide & John	1988	Empirical; 199 MRs	Dependence in channels	Not in MRs interest to be overly dependent on a principal.
Weiss & Anderson	1992	Empirical; 243 manufacturers	Sales outsourcing	Manufacturers dissatisfied with reps will stay with them if they perceive high switching costs
Pederson *et al.*	2002	Empirical; 214 Danish exporters	Export sales set-up	All switching costs inhibit conversion from agent to subsidiary, but especially recruitment/training costs.
Whitten & Wakefield	2006	Empirical; 160 appl dev execs	IT outsourcing	Multi-dimensional construct – definite impact on management decisions – likely to constrain change.
Macher & Richman	2008	Meta-analysis	TCE empirical research in social science	Little consideration of the problems of misalignment of transaction and governance forms – but indications that it leads to lower profitability and/or failure.
Whitten *et al.*	2010	Empirical; 163 IT managers	IT outsourcing	Customers do indeed get “locked in”. SC high – stick with vendor, SC low – backsource, SC med – switch vendors.

Authors	**Date**	**Type of research**	**Context**	**Relevant findings**
Ambiguous performance				
Gilley & Rasheed	2000	Empirical; 94 firms	Effect of outsourcing on performance	No relationship.
Rothaermel *et al*.	2006	Empirical; longitudinal: 3,500 IT product introductions	Balance of vertical integration and outsourcing	Importance of balance between insourcing and outsourcing throughout the value chain; value of taper integration.
Jiang *et al.*	2006	Empirical; secondary data on 51 US firms	Outsourcing and operational performance	Outsourcing firms have a significant cost efficiency advantage.
Bengtsson & Dabhilkar	2009	Empirical; 267 companies in Sweden	Outsourcing and manufacturing performance	No relationship.
Weigelt	2009	Empirical; 132 banks	Outsourcing new technology and performance	Outsourcing has a negative effect on performance.
Pentina & Hasty	2009	Empirical; secondary data on 50 firms	E-commerce outsourcing and performance	No relationship.
Singh	2009	Empirical; 426 companies in India	Market orientation, outsourcing and performance	Positive relationship between outsourcing and performance/capabiliti es/ managing risk.
Bustinza *et al.*	2010	Empirical; 213 services firms in Spain	Outsourcing, capabilities and performance development of capabilities	Outsourcing improves competitive capabilities.
Kotabe *et al.*	2012	Empirical; 19,000 items of data on manufacturing firms	Relationship between outsourcing and market share	Negative curvilinear effect between outsourcing and market share performance.

2.5 Summary of the literature review, problem statements and questions

2.5.1 Introduction

The literature discussed has provided a broad and deep portfolio of prior knowledge pertinent to the research aim of examining the perceptions of UK sales managers of factors influencing their resourcing preferences and behaviour.

It has been observed from the literature that the sales function is an important part of companies in business-to-business sectors; it is a department which is given responsibility for achieving organic growth but where understanding of performance may be difficult. Concerns about escalating costs, lack of skills and a need for new models have been observed from practitioner and researcher comment, and yet the use of outsourcing to reduce costs, gain access to skills or improve flexibility lags significantly behind the use of outsourcing in virtually all other parts of the organisation. Anderson *et al.* (2003) opined reasons why outsourcing has not been leveraged to improve the performance of the sales function; discussion of why it has been used and how are limited in scope (e.g. Rogers, 2009).

This section summarises the themes from the literature within the framework of the research aims and objectives, and presents the research questions which will be pursued in the primary research.

2.5.2 Research Objective 1: To explore sales managers' perceptions of the antecedents of outsourcing.

"Antecedent" in the outsourcing literature (e.g. Mol *et al*., 2005) commonly indicates a reason for outsourcing – an event or pre-existing condition. As discussed in the literature review, there are theoretical frameworks for predicting the outcome of "make-or-buy" decisions. However, in exploring the perceptions of decision-makers, the events or conditions that prompt "make-or-buy" decisions are of most help, although they are likely to illuminate the value of theoretical assumptions.

2.5.2.1 Proposition 1: Comparative cost of resource options will be an antecedent in "make-or-buy" decisions in the sales function.

There is empirical support for the dominance of cost/price considerations in motivating outsourcing of activities (Kakabadse & Kakabadse, 2002b; Kremic *et al*., 2006). Cost management does matter to firm performance and can make a considerable contribution to the value of a company (Groth & Kinney, 1994). Outsourcing appears to be positively related to the performance of firms aiming to achieve or maintain cost leadership (Gilley & Rasheed, 2000) and notably, cost leaders consider that production cost comparison is more important than transaction cost in determining outsourcing intensity (Martinez-Sánchez *et al.*, 2007). A focus on executional cost is not necessarily best practice (Anderson S W & Dekker, 2009b), but the strength of empirical evidence suggests that it should not be overlooked as an antecedent for outsourcing.

Companies that provide outsourced sales usually promote their cost advantage. For example, a *pro forma* spreadsheet is supplied by the Manufacturers' Representatives Educational Research Foundation so that sales managers can calculate cost comparisons. Commentators on sales outsourcing seem to expect considerable cost advantages (Ross *et al*., 2005; Anderson & Trinkle, 2005). The escalating cost of selling has been highlighted as a reason for firms to consider outsourcing (Anderson *et al*., 2003), and it may be anticipated from the exploratory work associated with this study that sales managers certainly expect contracting out to simply cost less than employment of salespeople (Rogers, 2009), even if they have another primary motivation. Cost/price comparisons are likely to be made when outsourcing sales activities, and are highly likely to be part of the ongoing measurement of success (Spriggs, 1994).

Given the evidence that cost must at least be part of the “make-or-buy” decision, it is important to explore the following research questions:

1. **Do sales managers perceive that it is cheaper to employ salespeople rather than use agents/contractors or vice versa?**
2. **How do sales managers compare costs between recruiting or deploying salespeople to do a task or engaging with a third party supplier?**
3. **Are the costs of selling a cause for concern?**
4. **Do sales managers feel that there is enough information available to them on which to base cost comparisons between employment and contract options?**

2.5.2.2 Proposition 2: The ease with which resource options can be controlled will be an antecedent in “make-or-buy” decisions in the sales function.

Cost comparisons are made at a given time, and contracts are designed accordingly. However, the parties to a contract cannot anticipate all possible circumstances that may arise post-contract. Williamson (1975) suggests that suppliers will seek to shirk from their contracted obligations. Consequently, the administration of contracts introduces a monitoring overhead for the client (Barthélemy & Quélin, 2006). A core principle of transaction cost economics and agency theory is that an employed person is more easily controlled than a contracted agent (Coase, 1937; Hart & Moore, 1990). Coase (1988) argued that the value created by the firm, and the reason firms exist, is the reduction in transaction costs of employing people versus contracting with suppliers.

In the case of outsourcing, both in theory-building (Ouchi, 1980; Wathne & Heide, 2000; Bahli & Rivard, 2003) and meta-analyses of empirical studies (Rindfleisch & Heide, 1997; David & Han, 2004; Geyskens *et al*., 2006), transaction cost economics has convincing support. The argument for employment where the performance of a contract is difficult to measure is also widely supported by studies of relationships with contractors that suggest that they must be highly structured, which is expensive (Daugherty *et al*., 2006), or that relationship stress is probable over time (Holmlund-Rytkönen & Strandvik, 2005; Halldórsson & Skjøtt-Larsen, 2006; Jap & Anderson, 2007).

If sales managers share the perceptions of transaction cost economists that contractors are more likely to demonstrate opportunism than employees, thus creating contractual hazards they would rather not have to manage, then the indicators that have been used in previous studies to test for costs embedded in the nature of contract should be helpful. Indeed, studies of sales outsourcing have found support for behavioural uncertainty, i.e. difficulty in measuring the link between activity and performance, as a predictor of both a preference for employing salespeople and a preference for salary-based rewards rather than commission (Anderson E., 1985; Tremblay *et al*., 2003; Krafft *et al*., 2004).

Although some support for behavioural uncertainty as a driver for insourcing is recent, there is also widespread theoretical challenge from co-operation and relational theorists and behavioural economists (Tjosvold, 1984; Dyer & Singh, 1998; Lunn, 2009). Evidence of trust between principals and agents to contracts, and of a link between trust and performance can be found (Mohr & Spekman, 1996; Zaheer *et al*., 1998; Brock Smith & Barclay, 1997; Wynarczyk & Watson, 2005; Conklin, 2005; Judge & Dooley, 2006). Indeed, Brown *et al.* (2000) concluded from their findings that managers should focus their effort on relational exchange because only this governance mechanism limits opportunism. The capability of companies to develop co-operative relationships will be explored later on as a moderating factor. Initially, it is necessary to check for the sales managers' perceptions about the ease with which contractors can be controlled.

Coase (1937) contrasts the challenges of managing relationships with suppliers with the ease of managing employees, drawing analogies with the master-servant relationship. This attitude seems dated when compared to more recent opinions about the incongruence of goals between employers and employees (Ouchi, 1979; Coff, 1999; Sliwka, 2007). In some cases of IT outsourcing, the decision has been driven by concern about internal opportunism (Fan, 2000; Miranda & Kim, 2006). It is productive for customer-facing staff to identify with their employer (Wieseke *et al*., 2009), but this cannot be taken for granted. Loss of control occurs in the sales function (Phillips, 1982). Indeed, salespeople may be particularly difficult to manage (Jelinek & Ahearne, 2006). Poor co-alignment of internal control approaches can result in reduced sales performance (Onyemah & Anderson, 2009). The difference between employed people acting like agents and contracted out salespeople is blurred (James, 2000). There may be a balance between the expectation of external opportunism and internal opportunism, as found by Miranda and Kim (2006). It is part of the contribution to knowledge of this study to check for sales managers' perceptions concerning this condition.

Given the wide range of theoretical and empirical studies in the literature about the importance of adopting an organisational design that minimises the cost and effort of control, with a number of meta-analyses finding broad support for TCE assumptions, the following research questions will be explored:

1. **Do sales managers perceive that employed salespeople are easier to manage than third party contractors or vice versa?**
2. **How do sales managers compare management effort between recruiting or deploying salespeople to do a task or engaging with a third party supplier?**
3. **How important do sales managers think it is it to monitor the behaviour of salespeople or contractors?**
4. **Comparing the legal framework in the UK for employment contracts versus normal commercial contracts, which do sales managers perceive to be the easiest to change?**

2.5.2.3 Proposition 3: The comparative skill level of resource options will be an antecedent in "make-or-buy" decisions in the sales function.

This is the most wide-ranging of the antecedents to be explored, with the literature spanning the asset specificity construct within transaction cost economics and the core competences construct encountered in the resource-based view. The more unique the resources a company utilises in a specific activity, the less likely it is to be outsourced (Espíno-Rodriguez & Padrón-Robaina, 2006).

Carter and Hodgson (2006) recommended that human asset specificity should be a separate construct, aligned with competency. Skills/knowledge has been described as the only thing that is specific about salespeople (Anderson, 1985). Skills are also recognised as rent generators in the resource-based view (Newbert, 2008), and some sales skills have particular value (Menguc & Barker, 2005). Some studies have focused on the importance of which skills must be kept within the firm to defend its differentiation (Watjatrakul & Drennan, 2005; Safizadeh *et al*., 2008), since even workers with very specific skills can be mobile (Battu *et al*., 2002). Prahalad and Hamel (1990) refer to the importance of "competence carriers".

Whether or not selling skills in their own right have particular value is a matter for debate (Stapleton & Hanna, 2002; Menguc & Barker, 2005), but many firms might wish to access what they perceive to be specialist and focused selling skills from third parties (Novick, 2000; Weinrauch *et al*., 2001). Some studies have identified that it is firm-specific skills of salespeople that accrue highest value (Galunic &Anderson, 2000; Menguc & Barker, 2005). These may be associated with knowledge of the nature of the company, its products and customers, or they may be more specific to the individual's relationships within the firm. Therein lays a challenge, that a number of sub-factors may be identified as critical sales competences.

Previous studies from both TCE and RBV viewpoints have identified a number of specificities or competences that seem to restrict a firm's likelihood to do much outsourcing. Whether it is called company nature (Anderson, 1985), collective learning (Prahalad & Hamel, 1990), identity or essence of an organisation (Santos & Eisenhardt, 2005), firm characteristics (Oh, 2005), or strategic orientation (Rapp, 2009), some companies have strong cultures. Relevant studies have tested the length of time that a salesperson would need to get to know "the way we do things" as an indicator of the relevance of brand ambassadorship in a salesperson's skill set. The complexity of the product/service portfolio is also an indicator of skills/knowledge value (Anderson, 1985; Wilson & Zhang, 2002; Krafft *et al*., 2004).

The degree to which organisations value customer relationships is a factor which has a particular resonance for the outsourcing or otherwise of customer-facing activities. The major studies of sales outsourcing found that knowledge of customers and relationship-building ability are strongly associated with sales insourcing (Anderson & Schmittlein, 1984; Anderson, 1985; Wilson & Zhang, 2002; Krafft *et al*., 2004). It is necessary to test the perceptions of sales managers about the importance of customer relationship management skills in sales resourcing decisions.

Both the studies of manufacturers' representatives and employed salespeople have acknowledged the value of the integration of sales activity with the rest of the organisation, sometimes identified as team selling (Jackson *et al*., 1999; Tellefsen & Eyuboglu, 2002). Menguc and Barker (2005) found that the collaborative skills of the salesperson within his/her own company was the most significant and direct relationship with sales performance and it is therefore interesting to pursue this aspect of sales skills, especially as Williamson (1979) posited that most skills are transferable apart from inside knowledge and team dynamics. This aspect of a salesperson's skills has attracted specific theoretical comment (Wilson & Millman, 2003; Plouffe & Barclay, 2007) and some empirical support (Liu & Leach, 2001; Tellefsen & Eyuboglu, 2002). Nevertheless, knowledge-based activities are increasingly being outsourced (Sen & Shiel, 2006) in other functions, and contract sales organisations are involved in team selling (Jackson *et al*., 1999).

Because skills, competency and asset arguments seem to focus on defending current differentiation, it is also necessary to explore whether access to external skills is a more attractive proposition when looking to the future. Acquiring new skills through outsourcing has been advocated (Ansoff, 1957; Biederman, 2004; Kim

& Mauborgne, 1997; Ruzzier, 2009) and observed (Kakabadse & Kakabadse, 2002a; Ghodeswar & Vaidyanathan, 2008). Contract sales organisations do have desirable skills (Ross *et al*., 2005) which companies may wish to access as a growth option.

Competency arguments appear to be popular with practitioners, and it will be important to explore:

1. **Do sales managers perceive that employed salespeople are more skilled than third party contractors, or the other way round?**
2. **How do sales managers compare the skills of employed salespeople with the sales skills that are available from third parties?**
3. **How does the training investment in salespeople and contractors compare, and in particular how much comparative investment is made in training about company culture, products and customers?**
4. **How do sales managers perceive that customers would identify "the way you sell" as part of their differentiation as a supplier?**
5. **Do sales managers perceive that personal relationships between salespeople (whether employees or contractors) and customers have a lot of influence on sales success?**
6. **Do factors about the integration of selling, such as team-based selling and salesperson involvement in non-selling activity such as post-sales support and problem-solving, play some role in the sales skills portfolio?**
7. **Which skills are most important and do they vary between employed salespeople and contractors, especially: selling skills, product knowledge, knowledge of company culture and procedures, knowledge of the customer and working relationships with colleagues?**

2.5.2.4 Proposition 4: The comparative speed and flexibility in deployment of resource options will be an antecedent in "make-or-buy" decisions in the sales function.

One assumption of transaction cost economics is that in an uncertain business environment, activities should be insourced. Theorists from other schools of thought have also considered the market to be too rigid to deal with change (Eisenhardt, 1989; Dunn, 2000). From a practitioner view, outsourcing and particularly offshoring, can increase risk and constrain agility (Downey, 1995; Whitmore, 2006; Ketter, 2008). Klein *et al*. (1990) find support for this view in a study of export markets and Stapleton and Hanna (2002) find support for it in the shipping industry.

There is a broader selection of literature that finds evidence for the opposite of this. Qualitative studies (Schuster & Keith, 1993; King, 2006; Rogers, 2009), a modelling study (Alvarez & Stenbacka, 2007) and quantitative studies (Schilling & Steensma, 2002; Miranda & Kim, 2006; Díez-Vial, 2007; Martinez-Sánchez *et al*., 2007; Li *et al*., 2010) suggest that an uncertain business environment will lead to companies outsourcing more activities to reduce risk. Indeed, managers should be concerned with building flexibility as a capability (Scott *et al*., 1988; De Leeuw & Volberda, 1996), as it can lead to improved competitiveness (Sawnhey, 2006; Fantazy *et al*., 2009). The pursuit of flexibility has been associated with real options theory, which Foss (1998) argues is future-oriented and explains how firms can build capacity.

Early studies of sales outsourcing found insignificant results for business uncertainty as a predictor of outsourcing (Anderson, 1985) and the single sector qualitative study preceding this thesis noted sales managers quoting flexibility as a primary rationale for outsourcing sales (Rogers, 2009). Although flexibility is a relatively under explored rationale for outsourcing, it is worthy of exploration here:

1. **Do sales managers perceive that employed salespeople, contract sales organisations or a combination of both, give them more flexibility?**
2. **To what degree do sales managers perceive that competitiveness depends on being able to increase or decrease volume of activity without disproportionate increases in costs?**
3. **How do they perceive the relative contribution of employed salespeople and contractors to speed of change?**
4. **How do they perceive the relative behaviour of employed salespeople and contractors in obstructing change?**

The discussion of all these antecedents should create a picture of sales managers' perceptions of the reasons why the outsourcing or insourcing of sales activities should be preferred, but it has been observed in the literature that there are also moderating factors in "make-or-buy" decisions. In the case of sales outsourcing, some suggestions have been made about conditions that would inhibit the outsourcing of sales activities.

2.5.3 Research Objective 2: To explore sales managers' perceptions of factors moderating their resourcing choices.

Cause and effect are not always linear, as decisions can be moderated by intervening circumstances. The desire to outsource or insource an activity can be established but the preferred sourcing model may not be feasible. Espino-Rodríguez and Padrón-Robaina (2004) distinguished between the desire to outsource and outsourcing behaviour. Moderating factors are worthy of exploration.

One of the contributions to knowledge of this study is an examination of the moderating factors involved in the "make-or-buy" decision for sales activities. A moderating factor is defined as a variable that interacts with an antecedent. Its presence or level is expected to vary the effect of the antecedent (Wang, Badley & Gignac, 2006), rather than it being a link in the causal chain. The factors explored have similarities with factors that have previously been described as moderating the level of outsourcing in organisations (Espino-Rodríguez & Padrón-Robaina, 2005).

Anderson *et al*. (2003) proposed a number of inhibitors to the outsourcing of sales activities, most of which were contextual, but some were perceptual. In particular three important themes were mentioned which linked back to Anderson's original work in 1985: perceptions of an imperfect supply market, perceptions of different competences in managing third parties and perceptions that sales outsourcing is in some way not legitimate.

2.5.3.1 Proposition 5: The availability of suitable suppliers will be a moderating factor in "make-or-buy" in the sales function.

A simple and obvious inhibitor to outsourcing is a manager's perception of the availability of suitable contract sales organisations (Anderson, 1985). Lonsdale (1999) is widely quoted for advising that firms should not outsource into a limited supply market, and purchasing theory devotes considerable attention to calculating and minimising exposure to supply market constraints (Kraljic, 1983). Since a choice of suppliers is likely to reduce the perceived risk of lock-in to a contract, it is presumed that this factor will be considered alongside the need to control resource.

Although not always explicit to outsourcing, there is sufficient indication from the literature that business decision-makers will limit their exposure to supply markets; therefore it is important to discuss:

1. **How do sales managers perceive the supply market for recruiting salespeople, compared to the availability of contract sales organisations/sales agents?**
2. **How do sales managers perceive the implications of becoming dependent on particular employees or contractors?**

2.5.3.2 Proposition 6: The ability to manage resource options will be a moderating factor in "make-or-buy" in the sales function.

Anderson pointed out in her seminal study in 1985 that the ability to manage manufacturers' representatives may be a moderating factor in sales outsourcing activity, and there is empirical support that the capability of managers to manage outsourcing is a moderating factor for a variety of outsourcing categories (Leiblein & Miller, 2003). There is some evidence that the ability to outsource delivers better performance from outsourcing (Kakabadse & Kakabadse, 2002a; Daugherty *et al*., 2006), and lack of it may certainly contribute to failure (Alexander & Young, 1996). It has recently been observed (Piercy *et al*., 2012) that sales manager control competences are an important moderating factor in the successful implementation of strategy where salespeople are employed, and it seems logical that the same should be true with contractors or a mix, although the competences may be different.

Outsourcing capability could be broken down into two sub-themes, contract management and relational exchange management. The detailed management of contracts is identified as a necessary prerequisite for success from outsourcing in some studies, as formalisation reduces ambiguities and aligns management focus with potential hazards so that performance problems can be minimised (Conklin, 2005; Anderson S. W. & Dekker, 2005; Barthélemy & Quélin, 2006; Daugherty *et al*., 2006; Mayer & Salomon, 2006). The power balance between the principal and agent may be relevant to the principal's ability to achieve compliance (Shervani *et al.*, 2007).

However, relationship-building is needed as well, or perhaps instead of, contract management. There is a body of evidence indicating that trust-building may offer more return as a governance mechanism (Anderson & Weitz, 1989; Brown *et al*., 2000; Wynarchzyk & Watson, 2005; Judge & Dooley, 2006; Handley & Benton, 2009). It may take some learning by experience for such a capability to be demonstrated (Díez-Vial, 2007). Sales agents seem to value the relational exchange capabilities of their principals, which may also encompass mutual investment (e.g. training) (Anderson *et al.*, 1987; Anderson & Weitz, 1989 and 1992; Merritt & Newell, 2001; Gulati & Bristow, 2005). It is relationship-building that seems to ensure better results over time within long-term outsourcing arrangements (Ryals & Humphries, 2010). Within the literature, it is relational theory that dominates the theme of outsourcing capability, but in practice, a combination of both may be expected.

Since capability is most likely to reduce the perceived risk of losing control of a contract, it is anticipated that the ability to manage outsourcing would be considered alongside the challenges inherent in control. It could be very difficult to pose direct questions about the managerial ability of respondents. Although the composites of outsourcing competency are varied, there is evidence that being a competent outsourcer leads to more outsourcing. It will be valuable to discuss:

1. **What do sales managers perceive to be the implications for their skills in managing employees versus contractors (or vice versa)?**

2.5.3.3 Proposition 7: The perceived "legitimacy" of resourcing options will be a moderating factor in "make-or-buy" in the sales function.

Even with the capability to outsource and a choice of suppliers, companies may still be constrained by "industry norms", which may be reflecting what is assumed to be possible or perceptions of what "best practice" companies do. Even though misalignment of activities and governance forms are likely to lead to lower profitability and failure (Macher & Richman, 2008), firms will tolerate their "*status* *quo*" organisational design until outcomes are really unacceptable (Shimizu & Hitt, 2004). Uncertainty in the business environment seems to encourage imitation of perceived industry benchmarks (DiMaggio & Powell, 1983; Kock, 2005; Miranda & Kim, 2006).

In the case of sales outsourcing, Weiss *et al*. (1999) found that perceptions of the relative reputational capital of their own employer versus competitors was relevant to sales managers' decisions about using manufacturers' representatives. They would not outsource if they perceived that "best practice" companies did not outsource. More recent research provides evidence that agents can provide equal or better value to customers (Guenzi & Troilo, 2007; Palmatier *et al*., 2007), the agent has a reputation to consider as well (Mukherji & Ramachandran, 2007) and the customer may not necessary want direct contact with a manufacturer (Wuyts *et al*., 2004). Nevertheless, the reputational risk of outsourcing customer relationship-handling has still attracted practitioner comment (Johnson L K, 2007).

Given the evidence for the influence of industry norms in resourcing decisions, it is anticipated that it will be valuable to explore:

1. **Do sales managers perceive that it is important to conform to the norm for their industry/supply chain in terms of how much they use employed salespeople versus contractors?**
2. **Do sales managers perceive that their company's reputation in the industry influences their use of employees versus contractors?**
3. **Do sales managers perceive any differences between employed salespeople and contractors in the observance of their business conduct guidelines or ethical code?**

2.5 4 Research Objective 3: This study will also consider which sales activities are considered most suitable for outsourcing.

Although there is no discernible guidance in the literature about which sales activities might be seen as suitable for outsourcing, it is important to take a granular approach, as in Watjatrakul and Drennan (2005). The primary research will prompt not only for the proportion of contracted activities (Gilley & Rasheed, 2000), but also for the activities that are actually outsourced. On the basis of preliminary discussions with the companies that provide outsourced sales, the following are expected to feature: lead generation, lead qualification, end of life products, desk-based support for key accounts, merchandising, product launch, non-strategic customer segments, difficult to serve locations, new market segment entry, after sales follow-up and sales temps (e.g. maternity leave cover).

Empirical examinations of sales outsourcing to date have focused on all-or-nothing outsourcing to manufacturers' representative or sales agents. However, there are many in-between states that are observed in other functions, such as IT and FM, the "hybrid governance" state described in transaction cost economics (Gilley & Rasheed, 2000; Martinez-Sánchez *et al*., 2007; Krishnamurthy *et al*., 2009). This may be described as partial outsourcing or out-tasking. This study contributes to knowledge by exploring how sales managers divide up sales activities to realise opportunities to use contractors, or to mix contractor expertise with in-house expertise.

2.5.5 The role of theory in sales outsourcing

It has been observed from the literature that for “make-or-buy” decisions in general, and for “make-or-buy” within the sales function, that there are three main theoretical models that aim to explain the conditions which predict whether something should be insourced or outsourced: transaction cost economics, the resource-based view and real options theory (Leiblein, 2003). Transaction cost economics is focused on the cost of controlling an activity; the resource-based view is focused on relative competences internally and externally and how they generate “rent” for the firm; real options theory is focused on the need for choice in an uncertain business environment, and therefore favours the replacement of fixed costs with variable costs.

It is possible that constructs from each of these theoretical perspectives play some role in the outsourcing of sales activities, although each would claim a dominant role. Translating theoretical constructs into terminology commonly used by sales managers can be challenging, but the adoption of a qualitative approach enables exploration of the relationship between the subjective view of the respondent and the predictions of theory. The questions posed in this study do have their roots in previous studies, some of which have taken a particular theoretical stance. As it is an exploratory study, there is no intention to prove or disprove a particular theory, but there may be indications of the relative resonance of particular theories with sales management practice.

2.5.6 Exclusions

Some possible moderating factors have not been included in this study.

Switching costs have been observed to lock companies into external vendors (Weiss & Anderson, 1992; Pederson *et al*., 2002; Whitten *et al*., 2010), and may be therefore a moderating factor for backsourcing when it may be desirable. It does not seem to be considered as an inhibitor to outsourcing. However, switching costs are most relevant where the agent has some exclusivity over a function or territory. Since this study anticipates partial outsourcing or out-tasking, which may include dual sourcing and will certainly include some very short-term contracts, no hypothesis will be made about the effect of switching costs. However, the issue of dependence on suppliers or employees will be explored in the discussion of control.

Anderson E. *et al*. (2003) have also flagged up the power of the sales manager to decide on the basis of his/her preference is a way that might not be possible for other line managers, e.g. in IT or logistics. Given that this study focuses on the perceptions only of sales managers, it would be difficult to test any difference.

The complex nature of sales performance has been discussed (Zallocco *et al*., 2009; Verbeke *et al*., 2011; Evans *et al*., 2012), and it presents a challenge in discussing whether or not sales outsourcing is perceived to lead to better performance. Each company and sales manager may have very different expectations, and expectations of performance will depend upon the motivation for the use of contract sales organisations; for example, if flexibility is the primary motivation (Rogers, 2009), CSOs are primarily expected to deliver speed in ramping up and shutting down activity. Perceptions of a good ability to control CSOs may influence perceptions of objectives being achieved. Questions will be posed about perceptions of performance versus competition (as advocated by Colletti & Chonko, 1997), but linking aspects of perceived superior sales performance with approaches to the outsourcing of sales activities may prove elusive for this study.

2.5.7 Summary

This section has summarised the themes explored in the literature review and has presented the questions prompted by the literature for an exploration with sales managers of the perceptions that affect their consideration of "make-or-buy" decisions. The coverage of antecedents, moderating factors and the type of activities outsourced should give an in-depth understanding of sales managers' perceptions of why sales outsourcing is or is not an organisational design option in their resource allocation decisions. The next section explains the methodological approach taken to explore these factors in primary research.

Chapter 3: Philosophical foundations, research methodology and research design

3.1 Introduction

The purpose of this chapter is to discuss the philosophical approach to the primary research in this study, and to justify the choice of research methodology, the design of the research instrument and choices made concerning its analysis.

The debate about the nature of knowledge between positivism and interpretivism is discussed, followed by consideration of why intepretivism was considered the most suitable approach to this study. Given that there is a limited amount of previous literature about the use of contract sales organisations in the UK, there is still room for theoretical development. Exploring sales managers' perceptions enables some progress in developing a conceptual model of "make-or-buy" in the sales function.

The research instrument chosen is a semi-structured interview, following quintamensional design (Gallup, 1947), which includes specific questions about behaviour and context as well as open questions to elicit the respondent's perceptions in their own words. To enhance the reliability and validity of the method and reduce bias in data collection, a team of specialist interviewers were used, working under the supervision of, and in collaboration with, the main researcher.

The difficulties of accessing robust sample populations for sales research has been noted by previous researchers (Carter *et al*., 2008) and therefore this method is suitable because it can provide insight into alternative viewpoints of sales managers about outsourcing with a purposeful sample of 29, and it takes up relatively little of the respondent's time. 29 interviews for 55-75 minutes generated a considerable body of data, which was analysed using Nvivo software.

3.2 Philosophical foundations

3.2.1 Review of philosophical positions

Any researcher must reflect on their approach to the nature of knowledge before designing their research instrument. In the social sciences, the question is whether to adopt the philosophical stance of positivism, which is regarded as dominant in the field (Deshpandé, 1983; Marsden & Littler, 1996; Nodoushani, 2000; Chung & Alagaratnam, 2001; Onwuegbuzie & Leech, 2005; Karami, Analoui & Rowley, 2006; Morgan, 2007; Rod, 2009), or to defend the minority, interpretivist view. This may be seen as a dilemma, or the luxury of choice (Rod, 2009). Each approach has been described as a paradigm - shared beliefs among a group of specialists. Adherents to one paradigm may suggest that it is “incommensurate” with the other; in other words, if you accept a bit of one, you have to reject all of the other (Morgan, 2007). Increasingly, academics writing about this choice (e.g. Wood & Welch, 2010) are eschewing polarisation, identifying overlapping paradigms (Arbnor & Bjerke, 2009) and opening up the potential of mixing research methods (e.g. Cresswell, 2003; Burke Johnson *et al*., 2007).

The traditional view is that logical positivism and interpretivism are philosophical opposites, and most books and articles on research methods contain tables to illustrate this:

Assumptions about:	**POSITIVISM**	**INTERPRETIVISM**
Ontology : • What is being studied • The relationship between the researcher and reality	Researcher and reality are separate (objectivity)	Researcher and reality cannot be separated (subjectivity); the search is for meaning
Epistemology: The nature of reality	Reality exists, (beyond the mind) and is there to be discovered	Reality is subjectively experienced and interpreted; it is context-dependent; shaped by multiple variables
Axiology: Goals of the approach	Explanation, verification, confirmation; verifiable results can enable prediction	Exploration and understanding
Research object	The qualities of the research object exist independently of the researcher (analysis can be done without influencing it)	The researcher interprets the research object according to their experience
Relationships between objects	Objects are independent	Objects can be influenced by each other
Granularity	The whole is the sum of its parts	The whole is socially constructed
Validity	Research statement can be mapped to reality; data measures reality	Richness and depth of data - credibility
Reliability	Replicability – results can be reproduced	Researchers address the implications of their subjectivity
Tools	Quantitative (statistics)	Qualitative (linguistic)
Instruments	Experiments, observation, surveys	Case studies, in-depth interviews, participation
Population for research	Large	Focused
Direction	Hypothesis – Deduction - Testing (analytical)	Inductive – establish motivations that may lead to patterns
Practical constraints	Sampling	Time-consuming and costly

Table 12: Assumptions about Positivism and Interpretivism - based on Deshpandé (1983); Baker (2001); Shankar & Patterson (2001); Mingers (2003); Weber (2004); Cepeda & Martin (2005); Arbnor & Bjerke (2009).

This table summarises a variety of views about the juxtapositioning of positivist and interpretivist approaches to the creation of knowledge. Positivism, also known as empiricism or objectivism (Marsden & Littler, 1996), assumes that it is possible to achieve objectivity in research; interpretivism embraces subjectivity. In positivism, reality exists, and the objective researcher can discover it; in intepretivism truth is perceived by the people involved in a phenomenon and the researcher should search for meaning. In positivism, research objects are independent of each other and the researcher; whereas in interpretivism they can be influenced by each other. In positivism, general laws can be established when propositions about reality have been tested; with interpretivism research establishes possibilities and may be transferable, but context is always variable.

The sequence of scientific enquiry (the positivist stance), begins with the discovery of flaws in existing theory. A new theory is proposed, propositions are derived and tested, and a decision can be made as to whether the new theory is a better explanation of reality than the old theory. Notably, the tests focus on seeking a refutation of the new theory.

A number of studies have identified the dominance of positivism in management and marketing research. Karami *et al*. (2006) noted only a few studies based on interpretivist methods in twenty leading management journals from 1991-2000. In a study of the Strategic Management Journal, Ketchen, Boyd and Bergh (2008) noted that that there were significantly more positivist studies in the journal in the period 2000-2003 than in the 1980s. Chung and Alagaratnam (2001) examined the three top marketing journals between 1970 and 1997, and found that only one interpretivist study had been published in them from 1956-1986, and despite some incursion from 1987-1997, interpretivist studies were still very much in the minority. They commented that marketing is preoccupied with being recognised as a science. The perceived quality of sales research also relies on large high-quality, highly reliable samples (Carter *et al*., 2008), although it is getting more problematic to find them. Studies characterised by inferential statistics, hypothesis testing, mathematical design, careful sampling, precise measurement and cautious generalisation (Nodoushani, 2000) are clearly critical to academic careers. The dominance of positivism in social science has been described as at least hegemony (Nodoushani, 2000) and even a “tyranny” (Lowe, Carr, Thomas & Watkins-Mathys, 2005).

Of the few extant studies of sales outsourcing, most have adopted a positivist approach. However, these studies have focused on total outsourcing or total insourcing and it might be difficult to adapt their methods to enable responses about complex hybrids. “The history of science has shown that little if any knowledge is sacrosanct.” (Weber, 2004, p. vi). Much evidence may suggest that incremental logic drives knowledge; yet some of the most famous scientific theories have come from the researcher being immersed in the problems and making inspired guesses (Wood & Welch, 2010). It is also worth considering that, if there is more theory verification than discovery, it could cause an imbalance in the nature of knowledge about a topic (Deshpandé, 1983). The alternative to achieving knowledge through objectivity is interpretivism, also known as subjectivism or social constructionism (Marsden & Littler, 1996). This school of thought asserts that reality is subjectively experienced and contextual. Therefore, whilst the researcher must address the implications of their subjectivity, they should engage with the people he/she is researching in order to interpret their experience. In some social sciences, e.g. social anthropology, interpretive studies are still very important (Morgan, 2007). Arguably, the viewpoint of sales managers concerning their resourcing challenges is a suitable topic for an interpretivist approach.

Complex topics are not easy to test with a wholly positivist method. For example, in a study of entrepreneurial motivations, Kirkwood and Campbell-Hunt (2007) found that a positivist survey revealed no significant gender differences on any motivation factors, whereas in-depth interviews revealed that women and men had very different constructions about family-related motivations. They concluded that complex topics are better-served by a research instrument that allows the participants to extend their discussion and allows the researcher to extend and develop theory. This is likely to be the case with decisions about sales organisation design.

Interpretivism addresses the practical objections to natural science methods being used in studies involving behaviour in complex social systems (Morgan, 2007). Social scientists are dealing with people – not natural phenomena – and therefore cannot predict outcomes with the same accuracy as natural science (Baker, 2001). Weber (2004) gives competing examples – the reality of being hurt by falling from a window is not dependent on perception, but how people work in a team might be. Human interventions modify the most rational of things, such as the application of technology (Longshore-Smith, 2006). The scientific method will not provide mechanisms for solving complex problems (French, 2009). Complex, self-adapting systems such as companies (and their sales departments) are non-linear. A company would be in danger if it were in equilibrium. It should be learning and innovating. Applying scientific methods can result in disparate contributions based on narrow aspects of reality (Deshpandé, 1983).

Over-reliance on measuring what happened in the past does not necessarily help to predict the possibilities of the future (Wood & Welch, 2010). Although businesspeople are as interested as philosophers in certainty and the relationship of mind and worlds, what business knows about the world calls non-existent things into being (Weinburger, 2006). Managers seem to be more interested in identifying best practice via case studies than in developing generalisable laws for small aspects of their reality. Researchers need to recognise context before generalising, as businesspeople such as sales managers are always working in the context of immediate commercial constraints (Bryman, 2004; Karami *et al*., 2006; Rod, 2009). Research needs flexibility as well as discipline (Wright, 1996).

Measurement can be a particular challenge in the scientific approach to researching business topics. Controlling for sampling bias is a “significant hurdle” (Ketchen *et al*., 2008). Constructs such as motivation, can only be measured indirectly (Onwuegbuzie & Leech, 2005) which questions validity. Reliability estimates can vary with application of the same instrument (Onwuegbuzie & Leech, 2005) -

statistical significance is not always significant in practice (Chung & Alagaratnam, 2001). Lastly, statistical results cannot be generalised to different contexts, especially where research is narrow, e.g. employees in one UK county (Wood & Welch, 2010). Although the UK is a sizeable economy, achieving statistically significant samples in a particular category of business decision-maker can be challenging.

To claim that society can be studied like nature, is in itself, an ideological position (Nodoushani, 2000). The very fact that the positivist/interpretivist debate takes place suggests that interpretivists have got a point. Subjectivity may itself be in some way measurable (Arbnor & Bjerke, 2009).

3.2.2. General philosophical positioning of this study

It is the search for subjective facts – the perceptions that sales managers have about their resourcing choices and resulting outcomes – that drives this research. The philosophy most likely to facilitate this enquiry is interpretivism, and the research design most likely to help in this respect is qualitative.

By using a research instrument associated with interpretivism, there is no philosophical intent in this study to support the rigidity of incommensurability. Language and meaning are important as well as quantifiable findings (Morgan, 2007). Human organisations are open, adaptive, varied systems with tensions and conflicts. Any study can only be a limited picture of reality and one partly dependent on the interpretation of the researcher (Arbnor & Bjerke, 2009).

Knowledge creation is a continuum in which different methods are needed at different stages. To some degree it has its own truths in terms of research philosophy and method, which have been outlined by Morgan (2007). Inductive results feed the deductive objectives of quantitative studies and vice versa (abduction). Business knowledge cannot be completely unique or completely general and replicable. Nevertheless, judgements can be made about the transferability of research findings, since decision-makers always have to consider how much of existing knowledge can be used when new circumstances occur (transferability) (Morgan, 2007).

Kirkwood and Campbell-Hunt (2007) proposed “a cycle of inter-paradigm influence in theory development” (p. 235) in which theory derived from case interpretations can be followed by empirical testing, which may reveal errors and inconsistencies which then need to be explored in more cases. The extant literature on sales outsourcing has been described as “modest” (Rapp, 2009). That leads to an expectation that in-depth qualitative research would yield most insight. It was expected that this topic would be an emotive one for sales managers (Anderson *et al*., 2003); therefore the subjective truths of perceptions are its focus. Explanation is necessary, and since it is difficult to access objective reality, exploration of perceptions will be the closest that can be achieved. The problem is the main focus rather than the method. The optimum reliability and validity is sought through applying what safeguards can be used for interpretivist studies. Therefore this study adopts the philosophical approach summarised below:

Assumptions about:	**POSITIVISM**	**INTERPRETIVISM**	**THIS STUDY**
Ontology : • What is being studied • The relationship between the researcher and reality	Researcher and reality are separate (objectivity)	Researcher and reality cannot be separated (subjectivity); the search is for meaning	Assistance from a third party to mitigate researcher subjectivity
Epistemology: The nature of reality	Reality exists, (beyond the mind) and is there to be discovered	Reality is subjectively experienced and interpreted; it is context-dependent; shaped by multiple variables	Reality is subjectively experienced and interpreted; it is context-dependent; shaped by multiple variables
Axiology: Goals of the approach	Explanation, verification, confirmation; verifiable results can enable prediction	Exploration and understanding	Exploration and understanding
Research object	The qualities of the research object exist independently of the researcher (analysis can be done without influencing it)	The researcher interprets the research object according to their experience	Research objects must be interpreted in order to solve problems
Relationships between objects	Objects are independent	Objects can be influenced by each other	Objects can be influenced by each other (e.g. mimetic isomorphism)
Granularity	The whole is the sum of its parts	The whole is socially constructed	The whole is socially constructed
Validity	Research statement can be mapped to reality; data measures reality	Richness and depth of data - credibility	Rich and deep data is the source of credibility
Reliability	Replicability – results can be reproduced	Researchers address the implications of their subjectivity	The researcher addresses the implications of her subjectivity
Tools	Quantitative (statistics)	Qualitative (linguistic)	Qualitative (linguistic)
Instruments	Experiments, observation, surveys	Case studies, in-depth interviews, participation	In-depth interviews
Population for research	Large	Focused	Focused
Direction	Hypothesis – Deduction - Testing (analytical)	Inductive – establish motivations that may lead to patterns	Inductive – establish motivations that may lead to patterns
Practical constraints	Sampling	Time-consuming and costly	Access to respondents

Table 13: This study's philosophical approach - sources as in table 12.

Given the researcher's previous experience of the topic and involvement with contract sales organisations, the use of a semi-structured interview as a method with third party assistance reduced the possibility of researcher bias. The objective reality can only be accessed via the subjective reality of the actors involved, but to gain knowledge it is still important to engage with respondents from a neutral position. Alongside the expectation of a relatively small sample, respondents may influence each other outside of the context of the research and the whole of the topic may not be the sum of its parts, which necessitates caution in the choice of analysis techniques. Results may not be predictive, but may be transferable, especially since the use of qualitative inquiry within the research instrument may enable perceptions of cause and effect to be identified.

3.3 Research method

3.3.1 History of the research design for this topic

The seminal articles on the topic of the use of CSOs (Anderson, 1985; Krafft *et al*., 2004) are both transaction cost focused and positivist in philosophy. Anderson's study (1985), which is widely cited, was based on results from the sales districts of sixteen companies in the electronic components sector in the USA. The basis for analysis was 159 usable responses. Thirteen constructs were tested within eight hypotheses; seven were aspects of asset specificity.

Krafft *et al*. (2004) added agency theory into their considerations, and built on Anderson's study and four intervening studies based on the proportion of salary: commission paid to sales representatives, which they regarded as an analogous research issue. Using two dependent variables (kind of salesforce and proportion of salary to total pay) and twenty constructs, they surveyed 270 large firms in

Germany, from five sectors. Most other studies on aspects of sales outsourcing, from Anderson and Coughlan (1987) to Rapp (2009) adopt a positivist approach.

Re-using constructs from these studies to inform interview design clearly has some benefit, but there are analogous outsourcing studies that have been based on different hypotheses and their constructs also need to be accommodated in any study that updates and extends knowledge about outsourcing. Also, the researcher has experience of a previous qualitative study on the topic, which has informed the linguistic expression of theoretical concepts for practitioners.

3.3.2 Semi-structured interviews

Quantitative studies are unhelpful where there is “a general lack of knowledge about the topic to be researched” (Hassenzahl & Wessler, 2000, p. 442). However, open interviews can be difficult and timely to analyse, and are criticised for lack of objectivity and reliability, so the researcher has a challenge in designing rigour into the artefact.

Qualitative studies can help researchers to shed light on situations that would otherwise be unclear (Golafshani, 2003). A qualitative research methodology is “used when a research question asks for meanings of a phenomenon with the purpose of understanding the human experience” (Crist & Tanner, 2003, p. 202). Researchers need to access a target group’s experiences and the meaning they make from them (Knox & Burkard, 2009). In-company fieldwork or extensive interviewing, both of which are social processes as much as technical processes (MacDonald & Hellgren, 1999) are commonly used in the interpretive paradigm (Golafshani, 2003).

Semi-structured interviews are believed to be the best way to access the norms and values of respondents, who can express themselves through their own words and meaning in response to a limited number of open-ended questions (Knox & Burkard, 2009), while the interviewer prompts and probes for detail and explanation of things that the respondent takes for granted (Stephens, 2007).

"…we interview when we want to know something about what another person has to say about his or her experience of a defining event, person, idea or thing" (Nunkoosing, 2005, p. 698). The best way to get at that is to prompt the person to think about, and then to talk about their needs, attitudes, experiences, expectations and understanding.

Comparison across cases is sought (Knox & Burkard, 2009). Practical acts, accessed through narratives, reveal meaning and can increase understanding and identify patterns. The size of the sample is adequate when interpretations are clear and new informants reveal no new findings (Crist & Tanner, 2003).

Nevertheless, the qualitative approach has many challenges, and researchers need to be aware that "stories are authentic rather than true" (Nunkoosing, 2005, p. 701). What the interviewee chooses to tell is what they can contribute as an understanding of their experience. It is not possible to push the interviewee to reveal something they do not want to share, but the interviewer can prompt to get beyond immediate reactions to questions (Nunkoosing, 2005). There is a detailed discussion of reliability and validity later in this chapter.

3.3.2.1 Interviewing elites

Qualitative research seems particularly appropriate when the researcher needs to access high level decision-makers, also known as organisational elites. It is extremely difficult to achieve reasonable sample sizes for quantitative research when the number of qualified respondents is small. However, the challenge of conducting interviews with corporate elites has received relatively little attention in the methodology literature (Welch, Marschan-Piekkari, Pentinnen & Tahvanainen, 2002; Harvey, 2011). An elite interviewee can be described as "an informant (usually male) who occupies a senior or middle management position; has functional responsibility in an area which enjoys high status in accordance with corporate values; has considerable industry experience and frequently also long tenure with the company; possesses a broad network of personal relationships and has considerable international exposure" (Welch *et al*., 2002, p. 613).

There are barriers in place within organisations to reduce access to their senior managers (Mikecz, 2012) and there may also be a lack of interest among business elites in interacting with academics (Welch *et al*., 2002). Organisational elites are extremely busy people (Delaney, 2007). It is costly and time-consuming to overcome these barriers, in fact it may take up to five months, and the individual or their organisation will almost always impose restrictions on the interaction (Welch *et al*., 2002). Tactics for gaining access and consent are quite specific, such as personalised introductory approaches (Delaney, 2007); leveraging institutional affiliation (e.g. if the elite is a graduate of the same university); leveraging credentials as an expert in their field; using personal connections or research sponsor links (Welch *et al*., 2002). In the UK, networking is particularly noted as useful (MacDonald & Hellgren, 1999). As a result, most studies of elites use cascading or snowball sampling (Welch *et al*., 2002). Because access to elites is so difficult, researchers must conduct each interview at a time and within a time convenient to the interviewee (Delaney, 2007; Harvey, 2011). Using the telephone as a medium can improve convenience for interviewees.

Some degree of imperfection in sampling and data gathering seems unavoidable when trying to access organisational elites. The researcher is dependent on who is willing to give time for interviews and what they are prepared to discuss (MacDonald & Hellgren, 1999; Harvey, 2011; Mikecz, 2012). Nevertheless, if the challenges are recognised and accounted for, it is still possible and important to study how elites form attitudes and how they are reflected in the activities of their organisations (Delaney, 2007). Issues that arise in gathering data from elites include the reversal of the normal assumption about the power balance between interviewer and interviewee, leading to concerns about the openness of responses and control exerted over feedback loops (Harvey, 2011; Mikecz, 2012).

When interviewing elites, the power and status balance favours the respondent rather than the interviewer, so it is likely that the interviewee will attempt to dominate the interview, and challenge the questions (Mikecz, 2012). The interviewee is a “privileged knower” (Nunkoosing, 2005, p. 699) and therefore the researcher or interviewer can be patronised or cast in the role of “supplicant”. Equally, the researcher may suspend judgment because of respect for the interviewee, or overestimate the importance of what elites have to say (MacDonald & Hellgren, 1999; Welch *et al*., 2002). Delaney (2007) argues that there is “something seductive about interviewing those with great wealth, power and success” which can dilute the interviewer’s or researcher’s objectivity. This can be overcome by using interviewers who have a lot of experience of interviewing elites. It is important for interviewers to be well-prepared, and to observe the protocol of few questions with good probes and follow-up (Delaney, 2007; Harvey, 2011). An experienced interviewer can use status subordination to their advantage when probing for further explanation of the interviewees’ comments (Delaney, 2007).

Openness is important to the researcher, but elite interviewees are expert in fielding questions and getting across company policy, rather than what they think as an individual (Welch *et al*., 2002; Mikecz, 2012). In fact an “organisational elite” is likely to assume that a researcher wants the company’s position on a topic (Delaney, 2007). It is necessary to probe for personal attitudes (Delaney, 2007;

Mikecz, 2012). Academic neutrality may help the interviewees to regard interview as intellectual discussion.

Polar opposites may emerge from studies of elites, with some being very guarded in their comments and others being excessively frank. Those who are guarded may be concerned about comments being used against them (despite all assurances of anonymity). Alternatively, elite interviewees may see the interview as a means of channelling their personal views. "Some elite comments are so frank they are unusable" (Welch *et al*., 2002, p. 622). In addition, contradiction is common, even within individual narratives, which makes aggregation of data very difficult (MacDonald & Hellgren, 1999).

Post-interview co-operation with elite interviewees is important. Verification of their data may be essential to participation, but then they might censor it post-interview (Welch *et al*., 2002). Giving the managers control over the details of data used in management studies gives them control over the research, which undermines the reliability of results (MacDonald & Hellgren, 1999). Nevertheless, Nunkoosing (2005) argues that it is necessary to on the basis of ethics to allow respondents to take out anything that they do not want to be used in the analysis. Summary reports are successful in confirming findings and gaining additional perspectives and reflective comment from interviewees (Welch *et al*., 2002; Mikecz, 2012).

3.3.2.2 Telephone interviews

"Telephone interviews with elite and ultra-elite respondents are a valid and useful methodological tool that can provide important data for geographically dispersed samples" (Stephens, 2007, p. 203). As has been mentioned, telephone interviews are likely to maximise convenience for busy organisational elites such as sales managers. Businesses were quick to discover the value of the telephone when it became an accessible invention (Groves, 1990). Given the social and technological change in recent years, use of the telephone is now widespread, acceptable and could even be considered to be the primary form of interpersonal communication in the modern world (Carr & Worth, 2001).

Telephone interviewing has been neglected in many texts about qualitative research, or treated as less attractive than face-to-face interviews (Novick, 2008). An early comparative study of quantitative surveys with consumers found that telephone interviews were more likely to suffer from missing data, acquiescence, evasiveness or contradiction compared to face-to-face interviews, and therefore the data gathered was not as good (Jordan, Marcus & Reeder, 1980). Since then, and sometimes attributed to improving skills in telephone interviewing, there are comparative studies that report that telephone interviewing results in comparable quality of data and has some specific contextual advantages (Fenig, Levav, Kohn & Yelin, 1993; Wilson, Roe & Wright, 1998; Greenfield, Midanik & Rogers, 2000; Sturges & Hanrahan, 2004; Musselwhite, Cuff, McGregor & King, 2007; Stephens, 2007). Much advice about telephone interviewing is based on the assumptions that quantitative data is being gathered, but there are also a small number of helpful texts about qualitative interviewing by telephone, especially from researchers in healthcare. Telephone interviewing can provide rich narrative and shed light on stakeholder views (Holt, 2010). Qualitative interview techniques enable respondents to express their views in their own terms and introduce their own ideas (Sobo, Simmes, Landsverk & Kurtin, 2003).

While telephone interviews have some advantages for the researcher and the respondent, care must be taken to ensure that respondents have some sophistication and experience in use of the medium (Herzog et al, 1983). There are some specific disadvantages to be taken into account. Telephone interviewing is synchronous communication in a virtual space (Opdenakker, 2006). This means that the interviewer cannot pick up visual cues, such as body language, nor can the interviewer be aware of factors in the respondent's environment that may be distracting them or affecting their responses. Sometimes respondents volunteered information about their environment, such as being in an airport departure lounge, or having been kept awake all night by their new baby, but in most cases neither interviewer nor researcher could discern possible distractions. This places a burden on the interviewer to create a good ambience for the interaction, requiring more concentration (Opdenakker, 2006). Using professional interviewers was a means of enabling good ambience creation.

De Vaus (1991) argued that the decision about telephone or face-to-face needs to be decided on basis of achievable response rates, the ability to produce representative samples, its effects on interview design, the quality of data gathered and with consideration of implementation problems. All these factors were considered and managed (see below) but access and ease of implementation were probably the most critical factors in favour of telephone interviewing for this study.

3.3.2.2.1 Response rates and sampling

Both telephone interviewing and e-mail facilitated reflective dialogue offer the benefit of broadening a sample population. Respondent reluctance or difficulty in accessing respondents is a common problem in all types of research. Wilson *et al*. (1998) noted no significant differences in response rates or representativeness of samples in face-to-face or telephone modes, and some researchers have experienced improved response rates and completion rates using telephone interviewing (Carr & Worth, 2001; Sobo *et al*., 2003; Sturges & Hanrahan, 2004).

Among the advantages of telephone interviewing is the potential to reach an extended scope of respondents across large geographical space, or in hard to access places (e.g. prisons, war zones), or who otherwise might be constrained by time or location due to their work schedules or lifestyle (e.g. shift workers, frequent travellers) or a reluctance to undertake face-to-face interviews (Fenig *et al*., 1993; Sturges & Hanrahan, 2004; Opdenakker, 2006; Novick, 2008; Glogowska, Young & Lockyer, 2010; Trier-Bieniek, 2012). The researcher can offer the respondent greater flexibility in timetabling the interview, which is particularly valuable when the respondent is very busy (Stephens, 2007; Wäppling, Strugnell & Farley, 2010; Trier-Bieniek, 2012). Telephone conversations can be easily terminated (Groves, 1990), but since telephone interviewing minimises the time imposition on the respondent (Sturges & Hanrahan, 2004; Harvey, 2011), non-completions are not a significant problem compared to e-mail interviewing where it is easy for respondents to ignore difficult questions through non-response (McAuliffe, 2003).

Wilson *et al*. (1998) observed that there was no tendency on behalf of their respondents to rush telephone interviews, although interviewers need to maintain the balance needed between focusing on the topic and enabling respondents to control the pace of the interview.

3.3.2.2.2 Interview design

E-mail interviews may be the easiest to administer in terms of securing the structure of an interview (McAuliffe, 2003). Both face-to-face and telephone interviewing require significant skills on the part of the interviewer. Because of the differences inherent in telephone interviews, care has to be taken to develop strategies for the nuances of them (Stephens, 2007). It is particularly necessary for interviewers to be very clear in telephone interviews, even when interviewing elites (Stephens, 2007). Telephone interviewing requires good verbal communication skills (Wilson *et al*., 1998) and specialist techniques such as prompts when respondents stay silent, echo probes and dealing with counter-questioning (Sobo *et* *al*., 2003; Cook, 2009). With these skills in place, a telephone interview should take about the same or less time to administer compared to a face-to-face interview (Wilson *et al*., 1998). Timing of 35-60 minutes is considered desirable for telephone interviews (Wäppling *et al.*, 2010; Harvey, 2011). With a target time of 35 minutes, seven focused open-ended questions can be covered (Sobo *et al*., 2003).

The structure of qualitative telephone interviews may not differ particularly from face-to-face, although there are some minor specifics. For example, respondents cannot remember long lists of options, so that should be avoided (Wilson *et al*., 1998).

One advantage of telephone interviewing is that computer-assisted telephone interviewing (CATI) software may be used. This reduces the potential for missing data and improves the accuracy of data capture (Carr & Worth, 2001); it also ensures less interviewer variance and higher productivity because of reduced editing and record-keeping (Groves, 1990). Recording the responses also improves the quality of data captured, as tapes/.wav files pick up irregularities of speech (Cook, 2009). Verbal cues such as hesitation or intonation are captured by the tape and therefore are more likely to be carried forward and used in the data analysis than visual cues that a researcher might miss while taking notes in a face-to-face interview (Sturges & Hanrahan, 2004). (See interview guide for this study – Appendix A)

3.3.2.2.3 Quality of data

The quality concerns about telephone interviewing include the loss of visual cues from the respondent and whether or not the conversation is considered private enough to ensure open and honest communication.

Clearly, telephone conversations lack face-to-face cues such as looking puzzled or nodding in agreement (Groves, 1990). Without the visual cues in a conversation, such as facial expression and body language, there could be loss of rapport leading to less disclosure of information and emotion, and the potential for distraction (Musselwhite *et al*., 2007). In discussions of post-operative pain, researchers felt that not being able to observe patients' faces limited the quality of data, but nevertheless had used telephone interviews to avoid the lack of depth achieved in a prior face-to-face study (Carr & Worth, 2001).

A telephone interviewer may not see distress (or joy), but they may hear it. There are a smaller set of emotive messages over the phone versus face-to-face but it does not necessarily create errors in the quality of interaction (Groves, 1990). It is a comparatively better medium than e-mail for observing the respondent's strength of feeling. McAuliffe (2003) noted in an e-mail study with social workers as respondents, that reading emotive language is quite different from experiencing it face-to-face. However, an interviewer's visual cues are also a feature of face-to-face interviews, and their potential to influence the respondent is not considered to be desirable (Opdenakker, 2006). It has been suggested that respondents are less likely to give socially desirable responses in telephone interviews (Hill *et al*., 2005).

Rapport between interviewer and interviewee is regarded as central to qualitative research, but it is possible for experienced telephone interviewers to establish rapport quite quickly (Tausig & Freeman, 1988). They are also aware of auditory cues and can respond to them and they know to allow pauses and tolerate silence so that the respondent can reply in their own way (Wilson *et al*., 1998; Sturges & Hanrahan, 2004; Hill *et al*., 2005; Novick, 2008). Spontaneity is not necessarily less via the telephone than in person (Opdenakker, 2006).

Advocates of telephone interviewing question the relevance of visual social cues, and whether lack of them actually results in lower quality data (Novick, 2008).

Visual cues can be misinterpreted by an individual interviewer, whereas verbal cues such as hesitation and tone of voice are captured on the tape and are saved for analysis (Sturges & Hanrahan, 2004). In assessing the mood of respondents, Fenig *et al*. (1993) (who were using a demoralisation scale) noted specifically that respondents were not more cheerful on the telephone and concluded that “the greater psychological distance of the telephone interview may have facilitated symptom expression” (Fenig *et al*., 1993, p. 897). Overall, in their psychiatric survey, groups interviewed by telephone and face-to-face were highly correlated. Concerns about telephone interviewing increasing the likelihood of missing data, deceptive or contradictory replies, have not been realised in significant comparative studies (Tausig & Freeman, 1988; Sturges & Hanrahan, 2004). Even when there might have been some social differences in telephone usage, telephone interviewing did not appear to introduce systematic bias into aggregated responses (Herzog, Rodgers & Kulka, 1983). Of course, it is important to gather some information about context, to improve reliability (Sobo *et al*., 2003).

Telephone interviewing can also be favourably compared with the complete absence of social cues and lack of spontaneity inherent in electronic interviews (Opdenakker, 2006). To get the desirable depth in electronic messaging can take twice as long as in a face-to-face interview (Opdenakker, 2006), while telephone interviews can achieve depth and richness in much less elapsed time than either a face-to-face interview or electronic interview.

Social cues are not necessarily important when a researcher is interviewing an expert about ideas (Opdenakker, 2006). In particular in the case of interviewing elite groups, such as Stephens’ study of economists, they are articulate and free-speaking individuals who may not need much prompting (Stephens, 2007). The relevance of locational cues is also minor. Face-to-face interviews in the respondent’s environment may offer contextual relevance to an anthropological study, but has little relevance where a respondent group reside in similar office-style environments (Novick, 2008).

The telephone interview also allows the respondent to be relaxed in a space of their choosing, and they are likely to feel that they have more privacy and anonymity with telephone interviews rather than with face-to-face interviews (Hill *et al*., 2005; Opdenakker, 2006; Novick, 2008; Knox & Burkard, 2009; Holt, 2010). Particularly when a topic is sensitive, telephone interviewing minimises the imposition of the research on the respondent in terms of emotional demands and reduces anxiety about participation (Sturges & Hanrahan, 2004; Trier-Bieniek, 2012). It can even encourage frankness that improves data quality (Carr & Worth, 2001; Glogowska *et al*., 2010). Thus, health researchers have been able to recruit telephone respondents for subjects such as incontinence (Wilson *et al*., 1998) and mental health (Fenig *et al*., 1993).

To summarise this discussion of quality, it is useful to return to the seminal comparison study conducted by Sturges and Hanrahan (2004). They noted no significant differences in the themes and depth of content in telephone and face-to-face interview transcripts they obtained from two different respondent groups. The quantity of data gathered was similar and there was no discernible difference in content or depth. They concluded it was an acceptable and valuable method of data collection, yielding good quality data while maximising response rate.

3.3.2.2.4 Implementation issues

Telephone interviews are, by and large, easier to administer and control, together with cost and time advantages. Telephone researchers note the value of telephone interviewing in ensuring interviewer safety (Wilson *et al*., 1998; Sturges & Hanrahan, 2004). Although that is rarely an issue in business research, travel and elapsed time involved in face-to-face interviews can create stress for an interviewer, particularly if it interferes with other pressing duties in a busy life. Equally, in research institutes concerned about their carbon footprint, an alternative to travelling may be desirable. Telephone interviews may be conducted by a number of people to maintain a good pace of data gathering, while being overseen by the researcher (Novick, 2008). Specialist training in telephone interviewing is desirable (Wilson *et al*., 1998) or access to trained interviewers. An advantage of telephone interviewing is that it can facilitate the researcher supervising and support of the interviewing team, and improve uniformity of delivery of the questions, reducing the interviewer effect (Knox & Burkard, 2009).

Interviewing by telephone is considerably cheaper than face-to-face and involves no travelling time, enabling the researcher to increase the quantity of respondents within a constrained budget, avoid wasted visits, and focus time available on businesslike accumulation of data (Fenig *et al*., 1993; Wilson *et al*., 1998; Sturges & Hanrahan, 2004; Hill *et al*., 2005; Opdenakker, 2006; Musselwhite *et al*., 2007; Stephens, 2007; Novick, 2008).

In all considerations posed by de Vaus (1991), the advantages of telephone interviews outweigh their disadvantages (Wilson *et al*., 1998). Despite concerns about their drawbacks, they can be favourably compared with the practical limitations of face-to-face interviews (Opdenakker, 2006).

High standards of care are needed in gathering data via telephone, as they would be with any other mode. For example, there should be training specific to the research project for the research team, including understanding the research protocol and practising interviews in role-plays, supervised interviews and debriefing (Knox & Burkard, 2009; Glogowska *et al*., 2010). Some pilot interviews should take place before the questionnaire is finalised (Glogowska *et al*., 2010).

3.3.3 Research ethics

Science may strive to be value-free, but in the pursuit of that, it may become value-laden (Longshore-Smith, 2006). Making business studies a "science" has been used to avoid or even deny the importance of moral considerations in practice (Ghoshal, 2005). This study accepts that business knowledge is not separate from ethics and morality (Arbnor & Bjerke, 2009), and that ethics "are an essential part of rigorous research" (Davies & Dodd, 2002, p.281). The idea of researchers being objective and research objects being passive is not helpful and could lead to researchers trying to use findings to manipulate cause and effect (Marsden & Littler, 1996).

Some philosophers believe that people do have moral standards, free will and conscience (Cooper, 2007). Lowe *et al*. (2005) also argue that there should be a healthy balance between knowledge and other virtues, particularly wisdom. It is a person's soul that enables their access to knowledge. Sales managers may indeed have ethical concerns about the lack of benefits given to contract staff or the impact of redundancy on permanent employees, and a researcher must be sensitive to the implications of their topic. In the case of outsourcing, one implication is that the permanent jobs of loyal long-serving members of the sales team may be lost.

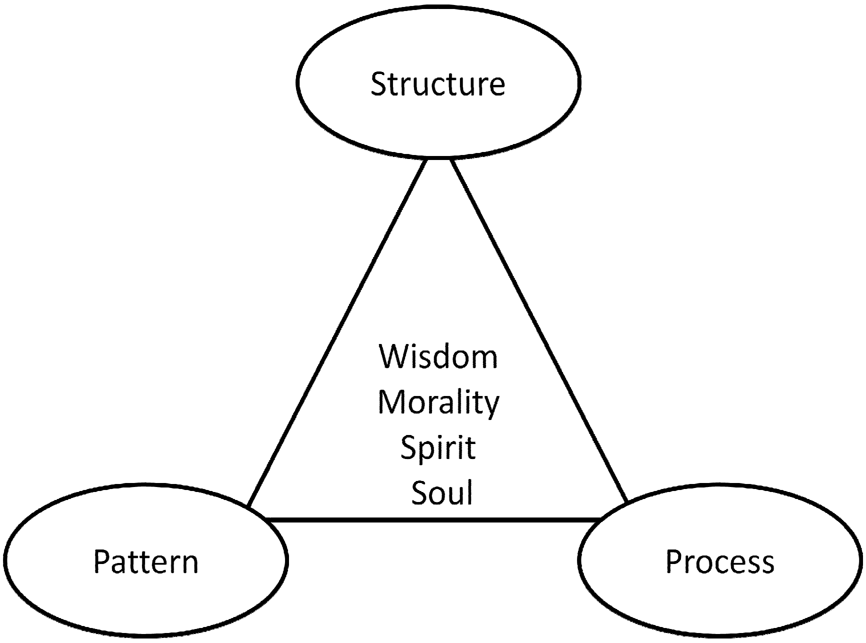

Figure 3: The fourth hermeneutic

This diagram illustrates the view that knowledge, represented by structure, pattern and process, needs to be connected by values and virtues.

Source: Lowe *et al*., 2005.

The principles of ethical research include voluntary participation, informed consent, doing no harm to respondents and ensuring their anonymity and confidentiality and privacy (de Vaus, 2002; Saunders *et al*., 2003; Creswell, 2003). Above all, respondents must not be put at risk. In the qualitative paradigm, it has also been argued that authenticity of the research depends on the process being empowering for respondents, rather than using them as research objects (Lincoln & Guba, 1986). Although primarily designed for vulnerable interviewees, the themes of negotiated consent, sensitivity to respondent's emotions, rapport and follow-up (Mitchell & Irvine, 2008) were considered in the design of this study.

An overview of this study was approved by the Portsmouth Business School Ethics Committee in November 2008 (see Appendix L). Considerable care was taken in the design of the interview guide and invitation letter, which were tested initially with a group of expert researchers and sales trainers. During the pilot interviews only one question had to be adjusted.

The third party that conducted interviews (see Appendix B) was chosen because of its experience in interviewing business decision-makers over the telephone, and its adherence to the Market Research Society's Code of Conduct. In the briefing and training provided to interviewers, they were prepared for potential questions from interviewees (Glogowska *et al*., 2010) and made aware that excessive probing might be regarded as a violation of privacy and therefore discretion must be applied (Carr & Worth, 2001).

Refusals in telephone surveys often happen before any argument can be presented for participation (Groves, 1990), hence it is important to use other forms of introduction. Potential respondents were approach in advance via the researcher's or the research company's networks, seeking their involvement in the study (see Appendix C for invitation letter). Full information about the study and the questions that would be posed were included (Nunkoosing, 2005; Glogowska *et al*., 2010; Harvey, 2011). The respondents were invited to take part and informed about the nature of research and its possible benefits, the process of the research, the requirements from respondents and how the data would be used and stored (Saunders *et al*., 2003). Advice was given about the time involved in answering the questions, which had been checked in the pilot. Advice was also given about the process of computer-assisted telephone interviewing. They were also advised about how their anonymity would be preserved by the dissociation of contact information from responses during coding, as recommended by Creswell (2003).

At the time requested by the respondent, interviewers phoned and clearly introduced themselves. They reminded the respondent about the research objectives (Carr & Worth, 2001). They also reminded the respondent that the interview would be taped, and how information would be stored and kept confidential (Glogowska *et al*., 2010) (see Appendix A). The interviewers negotiated for extra time if the conversation was over-running (Glogowska *et al*., 2010), but also ensured that time was offered at the end of interview for the interviewee to ask questions (Glogowska *et al*., 2010).

Summary reports of each interviewee's responses were sent to them to provide an opportunity for them to check accuracy and provide reflective comment (Carr & Worth, 2001) (See Appendix F). In addition to ensuring that the interviewee was still happy for the data to be used, this step also contributed to the interpretive validity of the data, and was a conduit for post-research support from the researcher. Subsequent interim reports and an invitation to discuss the modified model of resourcing decisions provided valuable verification for both researcher and respondents (see Appendix G).

3.4. Research design

3.4.1 Sampling

In this study, the unit of analysis is sales managers, and the output will be the viewpoint profile of sales managers. The correct respondents for this study are managers with responsibility for the effectiveness and efficiency of the sales function in their organisation, or part of it. These managers are the primary decision-makers when it comes to employing salespeople or contracting out. Some consideration may be needed for the influence of other decision-makers, but the purpose of this study is to focus on the perceptions of sales managers about "make-or-buy" in sales.

It is therefore necessary to establish the population of sales managers in the geographical scope of the study, the UK. Finding a suitable sampling frame is not as easy as it might be for other professions. According to the 2009 Labour Market Information report conducted by the Marketing and Sales Standard Setting Body in the UK (TBR for MSSSB, 2009), 7% of the UK's population are involved in sales-related jobs and 328,670 of them are sales managers. Only 149,000 full-time marketing and sales directors were recorded by the Office for National Statistics in the second quarter of 2011 (ONS, 2011a). It is also worth noting that, of the 2.6 million business enterprises registered for VAT or PAYE in the UK in 2010, only 0.5% are enterprises with more than 250 employees (11,815) (ONS, 2010) and only 5% had more than 50 employees. This suggests that there are a limited number of companies with sales managers supervising significant numbers of sales staff.

Controlling for sampling bias is one of the most significant hurdles in strategic management studies (Ketchen *et al*., 2008). Where bias is likely to occur, the researcher can only aspire to ensure that the bias works in favour of transferability rather than against it. It is not a requirement of qualitative methodology that the sample of the population should be random, but it should be purposeful (Hoepfl, 1997). Small samples are acceptable in qualitative studies, since quality and depth of data is a primary consideration, but the sample must not be too small, or it will be difficult to achieve saturation, or too large to make deep analysis difficult (Onwuegbuzie & Leech, 2007).

"Qualitative power analysis" is recommended (Onwuegbuzie & Leech, 2007, p. 105), but the unit of analysis is not necessarily just the number of respondents. Care must be taken to ensure that a large number of words are gathered from each respondent in order to "capture the voice" (Onwuegbuzie & Leech, 2007, p. 107). It is acceptable to adjust numbers of respondents during a qualitative study if saturation has not been reached, but it should also be considered beforehand on the basis of prior literature, since textbooks disagree and do not offer formulae

(Onwuegbuzie & Leech, 2007). The qualitative studies referenced in this thesis vary in sample size from the single case study (e.g. Halldórsson & Skjøtt-Larsen, 2006) to 33 cases for a UK cross-sectoral study of attitudes to opportunism (Grant, 2007) to 85 in-depth interviews with sales managers across three countries on the changing role of sales (Tanner *et al*., 2008). On the basis of the examples available to the researcher, 30 in-depth interviews lasting 35-60 minutes was considered a suitable target to achieve data saturation.

Onwuegbuzie and Leech (2007) describe 19 non-random sampling methods. Maximum variation sampling is one suggested approach, involving the selection of a wide range of individuals so that all or most types will be represented in the study. This ensures that multiple perspectives are captured and that any shared patterns across very different cases would be valuable findings (Hoepfl, 1997). It was a concern that there should be some breadth in this study across industry sectors, since notable empirical studies have been in manufacturing (e.g. Anderson, 1985, Wilson & Zhang, 2002). The respondents in this study were employed in seven broadly different industry sectors: four in healthcare, four in information technology, seven in various sub-sectors of manufacturing, six in business-to-business professional services, three in the business-to-business divisions of utility companies, three in the business-to-business divisions of financial services companies and two in technical service providers. They were asked about their career experience which in some cases encompassed other sectors. Their employers were mostly industry leaders in their sub-sectors, with ten being in the top two and another fourteen being in the top ten.

Purposefully selecting a cross-sectoral sample for a qualitative study was intended to enhance the richness of the data and the potential usefulness of the emerging themes, but it had to be carefully considered. As Wilson and Zhang (2002) found contextual variations within the manufacturing sector in the UK which could predict sales resources choices, it is notable that Anderson and Schmittlein (1984) examined the integration of the salesforce in only 16 firms in a sub-sector of manufacturing (electronic components). They did so on the grounds that while it limited generalisability, it enhanced internal validity, as industry-specific variations had been excluded. Nevertheless, Anderson (1985) suggested that her work should be tested in other industries, and Krafft et al (2004) included five sectors in their study, without drawing specific attention to any sector-related variations. Cross-sectoral samples have been used in qualitative studies before, such as Glancy et al (1998) in a study of entrepreneurial dynamics, and notably Rangan et al (1993) who chose different firm characteristics within manufacturing to study distribution channels (sample size 15). They argued for it on the basis that it ensured adequate variation in the topic of interest. However there is a risk that selecting a small number of firms from each sector in a study of resourcing options means that "industry norms" might be overlooked as an influencing factor. Since this study specifically asked about the role of "industry norms" in resourcing decisions, every effort has been made to minimise this risk.

The key sampling criterion for respondents was that they had relevant experience of significant resourcing decisions. All had more than five years' experience of running sizeable sales departments. A reasonable balance of different sectors was intended to ensure variety of experience. Most respondents, even if they were not currently outsourcing, had notable experience of outsourcing or channel management in their career. It was considered reasonable to interview respondents who admitted having very little experience of outsourcing or an aversion to it, as their perceptions could particularly illuminate the inhibitors of outsourcing.

Building up a sample through personal contacts reduced the likelihood of non-response, and maximised the opportunity to examine non-response. Management studies are characterised by high levels of non-response. Between 1992 and 2003, the average (mean) response rate for mail surveys was 33% with a 17% standard deviation (Cycyota & Harrison, 2006) and at the observed rate of decline a survey conducted in 2010 would attract a 28% response rate. A study of 532 samples between 1990-2005 (Carter *et al*., 2008) suggested that in marketing and sales research, average response rates dropped from 30% to 18%. Response rates in sales studies were lower than those in marketing by 3%.

In this study, of 231 sales managers invited to participate, 34 volunteered to do so and 13 explained their reasons for non-response, being lack of time, company policy, or that the study was not relevant to them (See Appendix D). The sales managers who were initially approached were the alumni network of a postgraduate course in sales management and the Sales Leadership Alliance. This perhaps suggests a bias towards a self-selecting “elite” within the sales profession, but the sample was supplemented by contacts of members of these groups, and contacts of the research organisation, who were not involved in professional development or professional bodies.

Due to a technical problem, three interviews were lost and two others were excluded for quality problems (one respondent was running a non-UK micro-business; one was running a CSO, rather than being a client of one).

Cycyota and Harrison (2006) noted that executives have less time to respond at the same time as requests are increasing and company policies are increasingly limiting responses. They discovered that the usual best practice for conducting research, such as advance notice, follow-up and personalisation, do not particularly increase the likelihood of participation, whereas the perceived importance or value of the topic or sponsorship by the employer or a social network did have some effect (also noted by Saunders *et al*., 2003).

Social exchange theory is relevant to the motivation of sales managers to participate in surveys (Carter *et al*., 2008). Response rates can be improved where the respondent feels that they are getting something out of it. Carter *et al*. (2008)

found that researchers in the sales field can positively affect response rates and sample size by the judicious use of facilitators. The researcher must reduce the cost to participate, or raise the benefits of participation. As previously observed by Cycyota and Harrison (2006), Carter *et al*.'s (2008) study found that co-operation with employers or social networks was the single best facilitator, but co-operation with an incentive could increase response rates by 58%. Familiarity with promoters or sponsors of the research can increase trust, but participants are also motivated by returns, especially if paid in advance. Desirable though it is to maximise non-material reward such as the sense of contributing to something important, incentives create a sense of obligation (de Vaus, 2002). In addition to association with their existing networks, respondents were offered a donation to a charity of their choice of £20. (See Appendix I for list of charities supported). Although pragmatic in terms of increasing response rates, incentives add another dimension to the possibility that volunteers may possess qualities that non-responders do not have (Baker, 2001). However, given the exploratory nature of the research design, this is not a major concern.

3.4.2 Interview guide design

Respondents are active rather than passive in the research situation. The theory of symbolic interaction suggests that humans usually try to take one another's viewpoint into account in discussions, and respondents may try to assume the role of the researcher unless the researcher explains their motivation in asking a question and setting a framework for the respondents to answer it (Foddy, 1993). Topics are multidimensional, and although there will be some similarities in business culture and experiences for a population such as UK sales managers, but they are still individuals who may interpret questions differently. If answers are to be compared, researchers must take care to ensure that the topic is closely defined, that the relevance of the topic to the respondent is established, and that the respondent is advised about the perspective they should take in answering the questions (the TAP paradigm) (Foddy, 1993).

The researcher has to aim to minimise the “noise” that affects both the encoding of the question and the respondent’s decoding of the question.

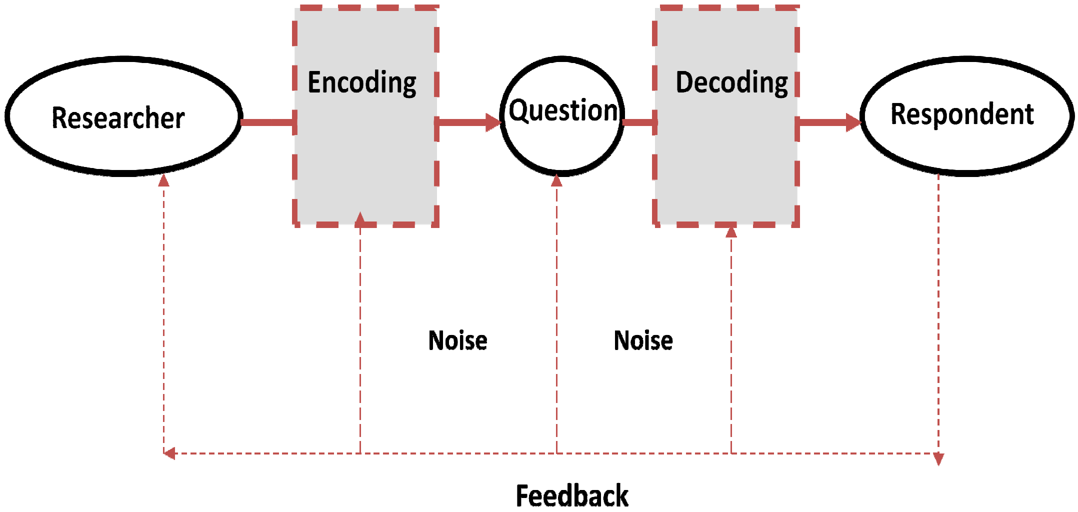

Figure 4: Encoding and decoding of communications

Source: adapted from Shannon and Weaver, 1949.

(See Appendix A for interview guide for this study).

3.4.2.1 Question design

Gallup (1947) suggested that too much attention is given to sample design and not enough to question design. Results can be criticised if research does not establish how well-informed respondents are, because ambiguous words are used, complex issues are over-simplified or intensity of opinions is overlooked.

Respondents do try to answer all questions, but will be influenced by a variety of contextual clues within the research situation (Foddy, 1993). Clues are gleaned from the wording of questions, adjectives used and verbal stress, and the positioning of a question within the interview. Indeed, it is very difficult to eliminate bias or ensure that qualitative research might be repeatable. The TAP paradigm has been applied to maximise the validity of this research.

It is recognised that words can have different nuances in meaning. In English, a “fat” chance is very similar to a “slim” chance and “wicked” can mean very bad or very good. Wording has been checked for usage within the population of UK sales managers in a pre-pilot expert review. Questions avoid qualifying clauses, negatives, evaluative adjectives, abstract concepts or implications. Respondents were offered the option of giving no opinion or declining to answer particular questions, to avoid forcing opinions (de Vaus, 2002).

Overall, Gallup’s (1947) quintamensional question design was followed where feasible in a qualitative interview, guiding the questionnaire overall and some individual questions (See Appendix A). The first dimension involves filtering to establish whether a respondent has thought about an issue (e.g. have you, within the past five years, been involved in a decision to…?). In this study, it was considered appropriate to include this filtering question in the recruitment of respondents, to establish whether or not the sales manager has recently been involved in a situation where a sales activity was considered for “make-or-buy”. This was done on the basis that a sales manager who had not been involved in such a decision within the past year might find the interview boring or difficult.

Gallup’s second dimension involves questioning to establish their familiarity with the topic (e.g. what do you think are the pros and cons of x?). In this study, each section begins with an open question about a possible factor in “make-or-buy” decisions (full details in Appendix A).

Gallup's third dimension involves specific questions. In this study, there are two sections asking specific questions, and specific questions to back up each open question. Section A asks contextual questions about the nature of outsourced sales activities in the respondent's company, which are designed to provide more detail (in addition to the filtering question) about the experience of the respondent relevant to the research topic. Section A asks contextual questions about the respondent's firmographics and general experience. This data is necessary for analysis purposes. Also, in each of sections B-E there are questions about facts which may provide specific context for the respondent's views of a particular approach to "make-or-buy" decisions. Respondents may not immediately recall circumstances, so very simple parameters have been used (e.g. less or more) and interviewers were advised to say "take your time if you need to" (Foddy, 1993).

The fourth dimension concerns the respondent's reasons for holding an opinion, and the fifth ensures that the interviewer establishes how strongly an opinion is held. Both these dimensions need to be covered in the prompts that interviewers use as follow-up to the second level open question. Although it is unlikely to occur in a semi-structured interview, care was taken to legitimise a "no opinion" response. It is important to establish direction of feeling and intensity, but also where there is no preference (de Vaus, 2002). Certainly, the respondents were very confident about expressing their strength of opinion, which was useful in analysis.

3.4.2.2 Theoretical underpinning of questions and prompts

Although this qualitative study is not testing hypotheses, the primary data-gathering is anchored in the literature on "make-or-buy". To this extent, all questions and prompts are linked to particular theories and prior research findings (see Appendix AA). First of all, there are some key contextual questions to include: propensity to outsource and firmographics.

3.4.2.2.1 Propensity to outsource

In this study, the main behaviour of interest is outsourcing sales activities. The respondents were prompted about how much of the sales function in their current employer was outsourced, and which activities were outsourced. They were also prompted to describe their experience of outsourcing in previous jobs. This preceded discussion about their perceptions of sales outsourcing.

3.4.2.2.2. Firmographics

Although not found to be particularly significant in other studies, "firmographics" are common sources of differences in business behaviour. From Anderson (1985), company size was included. In addition, as this is a cross-sectoral study, industry sector is a useful contextual factor, as it is possible that there are different characteristics for sales outsourcing in different sectors. Geographical location of the company was not considered relevant in a small country such as the UK. In fact, many of the respondents had experience of working in other countries and gave national comparisons, e.g. on employment law.

Sections B-E include questions based on the theoretical approaches examined in the literature review.

3.4.2.2.3 Cost comparison

Although overlooked by previous studies, at the core of transaction cost economics is a calculation of the comparative costs of doing a task internally or externally. In the researcher's qualitative study (Rogers, 2009), all respondents were aware of cost comparisons and considered it very relevant to their decision-making. Due to the respondents' likely familiarity with this issue, multiple prompts were not used to avoid irritating them.

3.4.2.2.4 Control factors

In both transaction cost economics and agency theory, incongruent goals on behalf of contracting parties mean that there is a risk of opportunistic behaviour. In studies of the sales function, difficulties in linking activity to outcomes have been of interest not just in ascertaining the likelihood of employing salespeople, but also whether internal salespeople are paid largely by salary or commission. Krafft *et al*. (2004) re-used four constructs and nine indicators from John and Weitz (1989) to test this construct; Anderson (1985) used 7 for difficulty in evaluating performance, 3 for timespan to feedback (length of sales cycle) and 5 for the importance of non-selling activities.

It has been argued in the literature review that unpredictability and lack of control may also manifest itself with employees, and care has been taken to prompt the respondents to compare sources of opportunism from within as well as from contractors. The potentially moderating factors of the availability of good contract sales organisations and internal competences in managing contractors are also covered here.

3.4.2.2.5 Skills

The resource-based view suggests that some of the skills of salespeople are the critical capability at the customer interface (Menguc & Barker, 2005) and that skills comparison must be at least a part of the “make-or-buy” decision. The skills of a salesperson, by implication from Anderson (1985) and Krafft *et al*.’s (2004) questions about the length of time to train for certain characteristics, include knowledge of the nature of the company, its products and its customers, or they may be more specific to the individual’s relationships within the firm. Because of the variety of aspects of specificity in skills, including knowledge of the firm, products, customers and team working, this section requires the most prompts. The focus of this section was on the rent-generating knowledge and skills of salespeople or other staff within the sales function, as individuals. It is recognised that there may be “capabilities” within the sales function that are broader. There were prompts to elicit the value of internal relationships and teamwork. The potentially moderating factor of industry norms was explored in this section, alongside reputational issues.

3.4.2.2.6 Flexibility

There is contrary evidence in the literature about the role of uncertainty in the business environment and its effect on “make-or-buy” decisions in sales. There is also contradictory evidence for the value of flexibility as a response to a volatile business environment. Although flexibility is a relatively under-explored rationale for outsourcing, it is worthy of examination here. The researcher’s preliminary discussions about this research topic and qualitative study in the pharmaceutical sector (Rogers, 2009) suggest that flexibility is a critical factor in “make-or-buy” in the sales function.

3.4.3. The expert panel and pilot testing

First of all, the questionnaire was reviewed by an expert panel, who were asked to consider the meaning of questions and how they might rephrase the questions in their own words, and also how they arrived at their answers (Foddy, 1993; de Vaus, 2002). They also commented on the likely length of interview and the logical flow.

Importantly, the third party research company was able to add their expertise in telephone interviewing. For example, they recommended that firmographic questions were asked first rather than last, as in their experience it was a useful means of establishing rapport.

In stage 2, the undeclared pilot of 5 interviews, the researcher was involved with monitoring the progress of all calls and checking for problems experienced either by respondents or the interviewers. One question, about breaches of trust, was regarded as too sensitive and was expressed differently using the less personal angle of ethical codes in the remainder of the interviews.

3.4.4 Reliability

In qualitative studies, the words of the respondent are used to understand the perceptions of the individual that may shed light on the reality beyond their point of view (Healy & Perry, 2000). For example, the relationship between “make-or-buy” decisions and sales function effectiveness may be a real thing, but it would be impossible to measure objectively. As Colletti and Chonko (1997) observed, there are a number of factors associated with a high performing sales function. It is unlikely that these factors are measured consistently across organisations. Even if they are, guesses might be made, or respondents might repeat "folklore". Managers may not know what is going on (MacDonald & Hellgren, 1999) or managers may even create and manipulate perception errors (Mezias & Starbuck, 2003). Logically, managers have to perform as well or better than competitors (Colletti & Chonko, 1997: Mezias & Starbuck, 2003), but in some firms a trend towards improvement is acceptable. In two studies conducted by Mezias and Starbuck (2003) there was a low correlation between perceptions and objective measures, but managerial practice still relies on the accuracy of managers' perceptions. However, the assumption that managers need to perceive issues accurately in order to solve them should be challenged. Variables that ought to be considered in strategic decision-making are often difficult to perceive accurately. Moving things broadly in the right direction might be more practical than solving a problem only when equipped with an accurate and detailed knowledge of it. Misperceptions do cause errors, but feedback should enable adjustment (Mezias & Starbuck, 2003).

Research certainly has to recognise that managers' views of reality differ from fact (MacDonald & Hellgren, 1999). By focusing on sales managers' perceptions of "make-or-buy" constructs, this study recognises that these perceptions are relevant to sales managers resolving their resource allocation challenges on an operational as well as strategic basis, i.e. the way they move things in what appears to be the right direction.

In the field of organisational change, research needs to capture the substance of the change, internal and external contexts, the actions taken to achieve change, the criteria for change and reactions to change (Armenakis & Bedeian, 1999). A change in the boundary of the sales function requires organisational change. Defining and measuring attitudes may enable predictions of reactions and behaviour (Baker, 2001). It is also important to capture what the respondent has done, under what circumstances. A longitudinal study would overcome the weakness of the snapshot (Baker, 2001), but since that would not be possible given the timeframe of this study, respondents must be prompted for information about previous behaviour and future intentions.

In-depth interviews have been chosen for this study as a recognition of the possibility of participant error (Saunders *et al*., 2003), because perceptions will undoubtedly vary according to recent events or anticipated events. Despite the reliability risk, studies of strategic management should tap into the motives and preferences of managers, as well as their decisions (Ketchen *et al*., 2008). The research is undertaken with awareness that sales managers may express themselves in value-laden terms and that the researcher needs to be aware of her own values in conducting the analysis (Healy & Perry, 2000).

The reliability of a study's results depends on whether they would be replicated in a retest (Creswell, 2003). This is a particular challenge for qualitative studies, but efforts can be made to ensure transparency that would enable another researcher to replicate the method. The trustworthiness of qualitative research depends on whether it can be audited (Healy & Perry, 2000). In addition, the authors of seminal works on rigour in qualitative research (Lincoln & Guba, 1986) suggest a number of other criteria that should be addressed.

3.4.4.1 Confirmability

Confirmability is defined as the degree to which findings are determined by respondents rather than researchers (Lincoln & Guba, 1986; Baxter & Eyles, 1997). Researchers should make their original data available (within the confines of confidentiality), describe their method and provide an audit trail of decision-making (Lewis, 2009), and explain their position on the research topic.

In accordance with the requirement for a PhD, the analysis tables (See Appendix J), quotes (see Findings chapter) and description of method (this chapter) will be in the public domain. The role of the researcher's own position on the topic of a qualitative study has attracted comment, much of which is relevant to validity (see below). Certainly a researcher should declare their position (Lewis, 2009). This study was undertaken by a researcher whose early career experience of IBM's value added resellers and software agents was very mixed, but who has recently produced articles indicating advantages in using contract sales organisations in the pharmaceutical sector. It was considered desirable to use third party interviewers as well as the researcher to minimise the degree to which the researcher's experience and knowledge could influence data collection and interpretation. As recommended by Sin (2010), the researcher recognised her own preconceptions and took deliberate measures to minimise their influence on the research process.

3.4.4.2 Repeatability

Seale and Silverman (1997) placed particular emphasis on tracking the degree to which another researcher could use the method and/or data in a qualitative study. They advocate quasi-statistics, i.e. using counts of events where they are applicable and using both open and closed questions to support any possible generalisations. In order to counter possible bias, the researcher was particularly careful in analysing cases which deviate from observed "norms". Data was recorded comprehensively, and Nvivo software was used to assist analysis (See Appendices J and K). Given that the interview guide was informed by the literature review (see Appendix AA) and coding has been electronically captured, repeatability seems feasible.

3.4.4.3 Dependability/consistency

The degree to which objectivity can be achieved and the minimisation of idiosyncrasies is a constant challenge for qualitative studies. Dependability refers to the "plausibility of accounts" (Baxter & Eyles, 1997, p. 516) and may be undermined by weak concepts and limiting the scope of the study by finalising themes too soon. Where concepts are weak, they may be interpreted differently. Qualitative researchers need to use value-neutral language and be consistent in asking questions, probing and following-up.

A pilot test is the first step in ensuring that meanings are clear. This may involve asking a group of experts (used in this study) and/or by testing the questionnaire on a small number of respondents (also used in this study). In the case of an expert review, respondents can also comment on how long the questions took to complete, the clarity of the instructions and questions, and any flawed logic, potential risks or topic omissions (Saunders *et al*., 2003). The expert panel review of the questions in this study was achieved by individual discussions with three other academic researchers (one a former marketing manager), and three very experienced sales managers currently in teaching/training roles. Although this was a convenience sample, it was a relevant group, able to make informed comment about the nature of the questions and their meaning. Further improvements to the wording of questions/prompts were also made during the briefing of the interviewing team, who all had extensive experience of conducting telephone interviews with organisational elites.

Using multiple researchers has been advocated as a means of focusing on consistency in implementing the study, because they all need to work to a standardised guide (Baxter & Eyles, 1997). This standardisation in the interview guide maximised the consistency of the interviewing team in terms of asking the same questions, asking questions in an unbiased tone, using probes consistently to ensure rich data is collected and avoiding leading the respondent (Lewis, 2009). The automatic recording of interviews also provides a means of checking on consistency, and the researcher had the opportunity to check with respondents in case of queries. This study has observed these protocols.

3.4.4.4 Authenticity

Authenticity is usually a key concern for qualitative research; the researcher must demonstrate that they have captured an "authentic understanding of people's experiences" (Seale & Silverman, 1997, p. 380). In doing so, they will find different constructions and conflict, so what can be done to ensure that the voices of respondents are represented fairly in the interpretation of findings and conclusions of the researcher? (Lincoln & Guba, 1986). Negotiation with stakeholders is advocated, offering the opportunity for respondents to become educated on the topic and action ideas that occur during the negotiation. This study has ensured a number of feedback loops with respondents, including verification of a summary of their interview (See Appendix F), inviting responses to two interim reports and inviting comments on the revised model of sales resource decision-making (See Appendix G). However, the researcher does not claim to have engaged in full negotiation, which might have been a burden on respondents' time.

3.4.5. Validity

3.4.5.1 Contingent validity

One specific aspect of qualitative research is the importance of understanding the context in which a respondent expresses a particular view. The social world of the respondent is not a laboratory. "Causal impacts are not fixed but are contingent upon their environment" (Healy & Perry, 2000, p. 123). Instead of direct "cause and effect", this research is designed to identify "broad, generative mechanisms" that exist (Healy & Perry, 2000, p. 123), i.e. a number of answers related to particular contexts. In order to ensure that these answers are valid, the research process must ensure that the respondent's meaning is captured by in-depth questioning focusing on "why" they perceive what they perceive, and establishing contextual issues. Meaning must be framed by the people whose meaning is in question, and in the terms that they use (Maxwell, 1992).

3.4.5.2 Construct validity

Studies linking constructs are usual in strategic management research. Unfortunately, many of these constructs are theoretical and cannot be observed (Boyd, Gove & Hitt, 2005). Construct validity in qualitative research requires the researcher to ensure the validity of the concepts applied to the phenomenon being researched by use of prior theory and research findings, which has been the case in this study.

Researchers need to avoid concluding that a relationship exists when it does not. The study must also take care to search for disconfirming evidence (Frankel & Devers, 2000). Concluding that a relationship does not exist when it does is equally problematic. In a qualitative study, the direction of causation can be explored through the responses of the interviewees. So, for example, where key account management had been outsourced (which was the exception to the rule) it was possible to find out from the contextual information given that this occurred because of constraints in accessing skills for a new venture, and the temps were subsequently employed. It was therefore consistent with the generalised view of key account management as a competence companies would prefer to keep in-house.

3.4.5.3 Descriptive validity

Due to concerns about the potential for interviewer/researcher bias in what they take note of in interviews, Maxwell (1992) highlighted the need for qualitative researchers to ensure that data is recorded accurately. The obvious tool for achieving this is recording of interviews, which, in the case of this study, was achieved automatically using computer-assisted telephone interviewing. A more pertinent concern in descriptive validity is the possibility of omitting something in analysis that the respondent intended to be important (Maxwell, 1992), but feedback loops with the respondents should have avoided that.

3.4.5.4. Transcription quality

The spoken word of the respondents usually has to be transcribed, for use in manual or computer-assisted analysis. Davidson (2009) drew attention to the need for transcription validity, since the recording of speech can reflect the transcriber's bias. In effect, transcription can become a translation, with the transcriber applying some judgement and interpretation to the respondent's words. However, it is equally inappropriate if words are transcribed in a way that makes the data difficult to use. There is a debate about whether a transcription should naturalise the spoken word into the written word, e.g. assuming punctuation and paragraphs, or whether the spoken word should remain denaturalised, with all its "ums" and "ers" and lack of punctuation.

Particularly with telephone interviewing, it is desirable to capture how words were said (hesitations, emphasis) as well as what was said. In this study, professional transcribers were briefed to take the denaturalised approach, and the researcher took care to listen to the audiotapes while using the text (See Appendix E). Also in line with Davidson's (2009) comments about the ethics of hired transcribers, these professionals were bound by the code of conduct of the Market Research Society.

3.4.5.5 Internal validity/causal validity/credibility

A qualitative study must concern itself to some degree with whether or not, and to what degree, cause and effect can be interpreted from the data, whilst recognising the multiple viewpoints of the respondents. Lincoln and Guba (1986) recommend a number of procedures to enable qualitative studies to contribute to the understanding of cause and effect concerning a research topic, while ensuring that respondents are the judges of its plausibility. They argue that researchers should have extensive and intensive contact with respondents, although that would have an impact on how many cases could be studied. They also advocate some form of triangulation, which again may have an impact on the scope of the study. Baxter and Eyles (1997) mentioned the importance of purposeful sampling to ensure a wide variety of cases are considered; Lincoln and Guba (1986, p. 77) emphasise "active search for negative instances". In this study, the search for multiple cases has been emphasised more heavily than extensive contact, in recognition of the limited time available to organisational elites to contribute to research, and exceptions to the rule were examined.

The researcher should also seek feedback from respondents about their reconstruction of their words. Baxter and Eyles (1997) argue that this "member checking" is "one of the most important strategies for enhancing credibility" (p. 515). With telephone interviewing, it has been suggested that respondents will only want to see summary information, rather than checking full transcripts (Welch *et al*., 2002), which introduces some translation issues, but the respondent has the opportunity to correct them. Summaries, written by the researcher, were used as the first feedback loop in this study (See Appendix F). All the respondents either confirmed or corrected the summaries, so that meaning could be checked before analysis of transcripts.

3.4.5.6. External validity

Researchers need to take care in claiming to what degree their findings can be applied to contexts other than the study situation, and this is particularly true of qualitative studies. Although in qualitative studies meaning is assumed to be bound to the scope of each particular study, aspects of research produced in one context may be transferable or be meaningful in other contexts (Baxter & Eyles, 1997). Previous research on the topic of “make-or-buy” in the sales function has been small-scale, but has advanced knowledge. This study uses the techniques of purposeful sampling and the collection of “Thick, descriptive data” (Lincoln & Guba, 1986, p. 77) which may enable others to judge the relevance of the findings to other contexts.

This study has its limitations and does not claim to have generalisable results. The limitations of the sampling frame, sample size and response rates have been noted above. Nevertheless, efforts have been made to introduce sufficient rigour into the study to assume that a reasonable addition to knowledge has been made.

3.4.5.7 Analytical generalisation

As advocated by Healy and Perry (2000) in discussing the rigour of qualitative studies, the focus of this study is on theory-building rather than theory testing. The interview protocol was based on previous literature (see Appendix AA) and provides a framework for collecting data that may support, refute or modify particular theories, with information about the contextual dependencies for those cases. In this study, an initial model has been defined and modified in accordance with the data gathered, to refine it into a form suitable for testing at a later stage.

The approaches to reliability and validity are summarised in the table below:

Table 14: Quality criteria for qualitative methods

Major criterion	Sub criterion	Description	Technique to address (generic)	Technique to address – this study
Ontological appropriateness (Healy & Perry, 2000)		Research problem deals with complex phenomena	Definition of research problem	Breadth of enquiry: antecedents, contexts and nuances; sales managers' perceptions
Epistemology (Healy & Perry, 2000)		Value aware rather than value free or value laden	Number of interviews; other evidence; probes; state values; peer review	Target of 30 interviews from variety of contexts; open and closed questions; professional interview team; PhD viva; and research to be published
Reliability/ trustworthiness	**Confirmability (Lincoln & Guba, 1986; Baxter & Eyles, 1997) Research worker/s reliability (Lewis, 2009);**	Findings determined by respondents rather than researchers	Availability of original data, description of method/ audit trail; statement of position of researcher	Availability of original data, analysis tables, quotes; description of method; statement of position of researcher

Major criterion	Sub criterion	Description	Technique to address (generic)	Technique to address – this study
Reliability/ trustworthiness	**Repeatability Seale & Silverman (1997)**	Degree to which another researcher could use the method and/or data	Quasi-statistics; qual/quant; deviant case analysis; using software to assist analysis; recording data comprehensively	Quasi-statistics (counts of events, some statistical analysis; open and closed questions; deviant case analysis; using software to assist analysis; recording data comprehensively (computer-assisted)
Reliability/ trustworthiness	**Dependability/ consistency (Baxter & Eyles, 1997)**	Degree to which objectivity can be achieved; minimisation of idiosyncrasies	Multiple interviewers; consistency in asking questions, probes, follow-up, transcription, follow-up	Pilot testing, use of professional interviewers and transcribers; computer-assisted interviewing
Reliability/ trustworthiness	**Authenticity (Lincoln & Guba, 1986)**	Fairness in negotiating evaluation with stakeholders	Discussion with stakeholders throughout	Feedback loops; appreciation of respondents as co-creators of knowledge
Validity	**Contingent validity (Healy & Perry, 2000)/ Interpretive validity (Maxwell, 1992)**	Generative discussion rather than direct cause and effect; ensure respondent's meaning is captured	In-depth questioning focusing on "why"; contextual issues	In-depth questioning focusing on "why"; contextual issues
Validity	**Construct validity (Healy & Perry, 2000); theoretical validity (Maxwell, 1992)**	Validity of concepts applied to the phenomenon being researched	Use of prior theory	Use of prior theory
Validity	**Descriptive validity (Maxwell, 1992; Lewis, 2009)**	Accurate data collection	Audio/videotape and "member checking"	Interviews recorded and summaries checked with respondents

Major criterion	Sub criterion	Description	Technique to address (generic)	Technique to address – this study
Validity	**Transcription quality (Davidson, 2009; Sin, 2010)**	Transformation from sound to text	Brief for transcribers: record how things were said	Brief for transcribers: record how things were said; Use of tapes as well as transcripts in analysis
Validity	**Internal or causal validity/credibility (Lincoln & Guba, 1986; Baxter & Eyles, 1997)**	Degree to which cause and effect can be established	Purposeful sampling; extensive contact, triangulation, peer checks, deviant case analysis, member checks	Purposeful sampling; optimised contact, open and closed questions, interviewing team reviews, deviant case analysis, member checks (check summaries with respondents)
Validity	**External validity. Transferability (Lincoln & Guba, 1986)**	Can be applied to contexts other than the study situation	Purposeful sampling; "Thick, descriptive data" enabling others to judge	Purposeful sampling; "Thick, descriptive data" enabling others to judge
Validity	**Analytical generalisation (Healy & Perry, 2000)**	Focus on theory-building rather than theory testing	Interview protocol based on prior knowledge that provides framework for supporting theory (or not)	Interview protocol based on prior knowledge that provides framework for supporting theory (or not)

3.4.6 Implementation process

In accordance with the advice offered by Burke and Miller (2001) on the basis of their exploration of intuitive decision-making via telephone interviews, careful steps were taken in the administration process.

Before the survey was started, considerable care had to be taken in planning and pre-testing. The questions had been designed to reflect the constructs derived from the literature review (See Appendix AA). To ensure the robustness of the interview guide (See Appendix A), an expert panel were consulted to check the clarity of the questions, the logical flow of the questions and the amount of time that would be required to answer them.

Introductory letters (see Appendix C) were sent via e-mail to potential participants in the networks of the researcher and research company, with a view to ensuring a wide variety of company type across business-to-business industry sectors. For those who responded expressing interest, questions were sent in advance to allow the respondent a certain amount of time to gather their thoughts (as per Wäppling *et al.,* 2010). This was recommended by Burke and Miller (2001) as a means of obtaining more in-depth data. Incentives were discussed with the research company on the basis of their experience, and they recommended donations to a limited choice of charities (£20 per respondent) (See Appendix I).

From a technical angle, it was important to ensure that the equipment and software for telephone interviewing and data capture was working correctly. The advantage of using a professional company to assist with data collection was that their equipment was already *in situ* and robust, and interviewees trained to use it. Other logistical considerations included the scheduling of interviews at a time to suit the interviewee and to enable the presence of the researcher as well as the interviewer if possible. Burke and Miller (2001) noted the problem of rescheduling by participants, which had to be minimised via reminders, and this did occur on a number of occasions.

Although time is always at a premium for busy executives, a summary of the introductory information about the study and a reminder about anonymity and data confidentiality was given at the beginning of each interview, as the respondent might have forgotten these details (Burke & Miller, 2001). The researcher was taking notes while the tape captured the responses.

Interviewing styles did differ per interviewer, but all had undertaken training and briefing, and there was no apparent loss of data as a result. Prompts and probing questions had already been planned to overcome any superficial answers. Of more concern was the possibility for the respondents to adopt the role of teacher of technicalities, as described by Stephens (2007), and for the interviewer to defer to the respondent and fail to prompt. The combination of open questions and closed questions was designed to provide variety for the respondent and connectivity within the data. Inevitably some respondents offered more detail than others, and some questions got better quality responses than others (See Appendix E).

Burke and Miller (2001) advocated speedy data analysis to maximise the integrity of the data. Members of the interviewing team were frequently discussing progress with the lead researcher. Systematic analysis of comments into themes was conducted. Summaries of interviews were sent to the respondents to check for accuracy and to provide additional reflective comment. Although Nvivo coding is best done when all data has been gathered, the researcher was loading data and reviewing transcripts/tapes as soon as possible after interviews took place.

3.5 Data Analysis

3.5.1 Overview

The world of management is complex (Haenlein & Kaplan, 2004). Due to the complexity of "make-or-buy" in the sales function and the variety of explanations and contexts, this study seeks to analyse the words of respondents to ensure that concepts and their inter-relationships are identified correctly.

Respondents have been asked to explain in their own words how they perceive cause and effect. The purpose of asking an open question is to establish whether the answer is related to an already established possibility, or whether it represents a new possibility (Christy & Wood, 1999). As previously described, both audio files of the original interview and transcriptions were available to the researcher as data. These had to be heard and read "to obtain a general sense of the information and to reflect on its overall meaning" (Creswell, 2003, p. 191). Notes were necessary at this stage, partly due to the commitment to summarise each interview for respondent confirmation.

3.5.2 Directed content analysis

Content analysis has a long history and was initially focused on studies involving secondary sources, such as media reports. The application of content analysis to qualitative research methods involves the interpretation of text data through systematic coding and identifying themes. Directed content analysis was the chosen data analysis method for this study. Compared to conventional content analysis, where codes and categories are derived only from the primary data, and summative content analysis, where keywords and synonyms are counted and compared, the directed approach starts the coding system from the theory and prior research findings (Hsieh & Shannon, 2005). However, the theoretical framework at the beginning may well be modified during the coding process. Care was taken to ensure that contexts per unit of text and the latent sense of it were analysed, and that text negating theory and non-textual signals were not overlooked (Kohlbacher, 2006).

Conventional content analysis was put aside because, although the existing literature on the specifics of sales outsourcing is small, the literature on "make-or-buy" offers a rich variety of theories and concepts. Conventional content analysis can distract the researcher from broad and deep understanding of the data, leading to missed categories. It can also be confused with grounded theory or a "naïve perspective" (Hsieh & Shannon, 2005, p. 1283). Summative content analysis starts with the counting of words or content, but does include consideration of latent content or context (Stemler, 2001). For example, in the case of terminally ill patients, a researcher might count the occurrence of "death/die/dying" and subsequently look for euphemisms for death and analyse the context for using direct or euphemistic terms (Hsieh & Shannon, 2005, p. 1283). Although this is a reasonable and objective approach, the focus is on terms of description which might distract from understanding of attitudes and behaviour. By the time data has been transcribed, a researcher is, to some degree, distanced from it, even if personally involved in the interviews, thus the text can lose its context. A great deal of moving between the face value of words and understanding meaning, involving feedback loops with respondents would be necessary to gain interpretive depth (Tan, Wilson & Olver, 2009).

Directed content analysis has been described as a deductive approach, as theory precedes and guides analysis (Hsieh & Shannon, 2005; Kohlbacher, 2006). The researcher seeks to add evidence to existing theory, or extend understanding of the relationships between variables in a theory. The starting point for the coding system is theory and existing theoretical constructs. For example, a researcher might use Kübler-Ross' five stages of grief as a framework for the initial analysis of interviews with terminally ill patients (Hsieh & Shannon, 2005, p. 1281). Open-ended questions accompanied by targeted closed questions are associated with directed content analysis, and the two data types should be reinforcing, or will throw up contradictions worthy of exploration. The directed approach was adopted in this study, and first level coding reflected theoretical models, although gathering evidence for each from wherever it occurred in the interviews, using text searches and other Nvivo queries to support manual coding (See Appendixes J and K).

One disadvantage of the directed approach to content analysis is that the structure of the questionnaire and the nature of probing questions might give cues to respondents about what the researcher is looking for (Hsieh & Shannon, 2005). However, given Anderson *et al.'s* (2003) observation of the minimal attention to "make-or-buy" among sales management practitioners, it seems unlikely that respondents were anticipating a particular agenda.

3.5.3 Coding Process

The first step in the content analysis process is familiarisation or immersion in the raw data, i.e. reading of all transcripts and listening to all tapes to gain an overall understanding of the data, at which time, notes may be taken about recurring themes (Pope, Ziebland & Mays, 2000).

After immersion in the interview data via the creation and validation of summaries, the researcher underwent Nvivo training in a group and one-on-one with an Nvivo specialist. The data was imported into Nvivo, and re-read, dividing it into "meaning units", also called content units or coding units, which were coded into first level themes. A meaning unit is a collection of words related to the same meaning, which should not be too long (several paragraphs) or too short (a few words) (Graneheim & Lundman, 2003). These coded units were then sorted into categories and sub-categories, with some concepts requiring five levels of sub-coding (See Appendix J). The coding process and outcomes were discussed with the trainer (via online and telephone link) as they emerged.

Using software such as Nvivo enables an interpretivist researcher to organise and code large quantities of textual data. It provides tools for recording coding decisions and concept-building, and provides an audit trail from the data to the model (Bringer et al, 2004). Textual data can be analysed through matrix coding to provoke new thinking and provide new opportunities for identifying additional patterns of perceptions, which may reveal new dimensions in the data, such as identifying exceptional cases (Bazeley, 2006). Indeed, it is valuable to compare data using attributes to clarify if contextual variations occur or not, if there is co-occurrence of themes across categories and if there are divergent views that challenge the themes (Bazeley, 2009).

Nvivo provides extensive query options. After manual coding, these queries were used to extend the analysis of the data. Queries enable the researcher to explore subsets of data. In this study, text searches (finding all occurrences of words or phrases) were used to ensure that all mentions of particular concepts had been captured in the coding. Word frequency queries were used to check for the commonality of particular concepts. Matrix and compound coding queries, which enable exploration of patterns in the data were also used. Matrix queries are used to find combinations, typically nodes and attributes. Compound queries enable searching for text within responses with particular attributes, or searching for two items of text in a specified context.

For example, respondents were asked about their challenges early in the interview, and an Nvivo test searches helped to identify additional references for this theme in other parts of the transcripts. Similar searches on “cost”, “control”, “skills”, and “flexibility” ensured that the first level of coding was thorough. At deeper levels of coding, text and matrix searches enabled clustering of concepts across categories, such as connections between “reputation” and “ethics”. Compound matrix searches helped to identify exceptional cases in the sample, such as only respondents reporting their employers to be differentiated on service appeared to be consistently reporting a cautious approach to outsourcing and only respondents reporting their employers to be cost leaders were reporting high levels of outsourcing and high levels of success with growth and reducing sales costs. They also helped to confirm anachronisms in the respondents’ words, such as customer knowledge being regarded as a most important skill, but not appearing to be connected to a resourcing preference or to training effort.

“Creating categories is the core feature of qualitative content analysis.” (Graneheim & Lundman, 2003, p. 107). A category is a collection of content with something in common, which must be internally the same and different from other categories. It is not always feasible to assume that no data falls between categories and sub-categories or could not fit in more than one, but a researcher should ensure that all data finds a place in a category. Any units that do not fit the structure must be allocated to new categories (Hsieh & Shannon, 2005). This process is reflexive, in that the researcher may return to past data to re-classify it in the light of subsequent data sorting, and the final categories may be different from the original framework (Sandelowski, 2000). Categories should be refined and reduced if possible (Pope *et al*., 2000).

The intention was to identify perceptions about different theories concerning “make-or-buy”, and to hypothesise about which concepts seemed to have the most explanatory value for “make-or-buy” decisions in the sales function, what their role was (antecedent or moderator), in which contexts, so that those theories could be adjusted, refined or extended. Because of this, broad statistical measures such as frequency of codes within categories were used to identify themes, a theme being "a recurring regularity developed within categories or cutting across categories" (Graneheim & Lundman, 2003, p. 107). Themes are associated with identification of meaning in text data.

The themes were used to map the scope of the findings and modify the model derived from the literature review (Pope *et al*., 2000). The revised model is explained in the summary to the findings chapter.

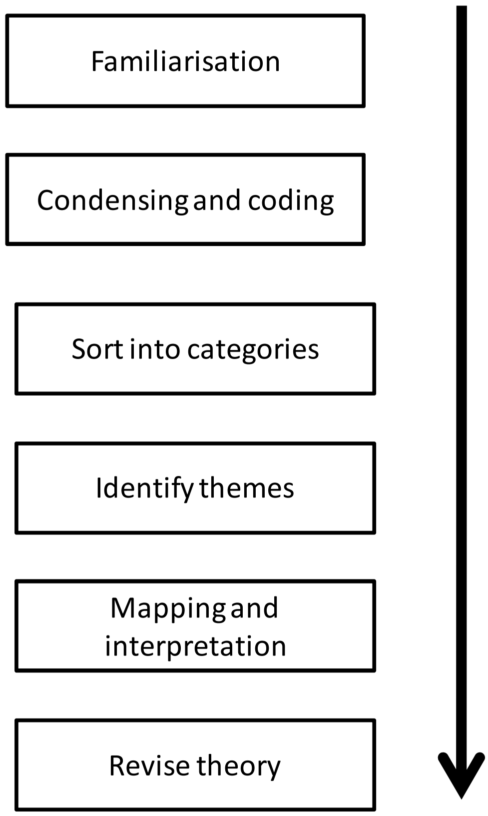

Figure 5: The analysis process followed in this study

Source: the author.

3.6 Summary

This chapter has presented the philosophical approach to the primary research in this study (interpretivism), justified the choice of research methodology (qualitative telephone interviews), explained the purposeful sampling of sales managers, the design of the research instrument (semi-structured interviews) and choices made concerning the analysis of the data generated (directed content analysis). The efforts made to ensure the robustness of the research have been explained, and the data analysis process using Nvivo software has been discussed.

Chapter 4: Findings and discussion

4.1 Introduction

This chapter presents and discusses the findings from the primary research undertaken with experienced sales managers in market leading companies. It explores the contexts of sales outsourcing through section 2 on the nature of the sample, including their challenges and attitudes, the antecedents of sales resourcing decisions through the sections on cost, skills and flexibility, and the nuances through the section on moderating factors. The relationship between outsourcing and performance is also considered. A revised model of the sales resourcing decision is proposed, along with suitable indictors for testing it.

4.2 The nature of the sample and contextual considerations

4.2.1 Firmographics

The sample was intended to be cross-sector, and the healthcare (4), information technology (4), manufacturing (7), professional services (6), utilities (3), financial services (3) and technical services (2) sectors were represented in the sample. In this respect, the sample was structured to include all sizable sectors in the UK. The manufacturing companies were from separate sub-sectors, and this was also true in utilities and technical services. Professional services included consultancy and promotional services.

Only two of the respondents described their companies as cost leaders; in all other cases, respondents described their companies as differentiated on service (9), quality (4), innovation (2) or other (12) characteristics.

Twelve (41%) of the sample described their customer portfolio as one where 20% of customers deliver 80% revenue. This is sometimes considered the "norm" for business-to-business, where a small proportion of customers are categorised as key accounts, worthy of separate resourcing focus (McDonald, Millman & Rogers, 1997). Another twelve had more broadly spread customer portfolios and five were predominantly supplying to government departments.

The sales directors/managers in the sample were working for substantial companies; only five were working for companies outside the top ten in their industry sub-sectors. This is by no means a representative sample of sales managers, but it does indicate that the respondents might be considered as opinion leaders in their profession. The sample included six fellows of the Sales Leadership Alliance and six with a postgraduate qualification in a sales topic.

Not surprisingly, given the market position of these companies, most reported their performance to be better than competitors on most of the factors of successful sales organisations identified by Colletti and Chonko (1997). Across eleven categories and the 29 respondents, there were only 38 (12%) mentions of performance being worse than competitors. There were comments about lack of benchmarking information, and the discussion about variations in performance has to be considered very carefully. Discernible differences were limited. They are discussed in a later section.

4.2.2 The business environment

Fifteen (51%) respondents described the intensity of competition in their industry sector or sub-sector as high, the remainder described it as moderate or low. Sixteen (55%) respondents described market conditions in their sector as volatile. Twelve (41%) described high intensity of competition and highly volatile markets. Suffice to say that most respondents observed difficult conditions for selling, the sort of “business uncertainty” predicted by transaction cost economics to increase vertical integration (Williamson, 1991).

4.2.3 Role, autonomy and experience of respondents

Although it would be expected that most sales managers in large organisations make resourcing decisions within qualifying parameters or consultative decision-making, thirteen (45%) respondents described their control of sales resourcing decisions as full autonomy. This is consistent with Anderson *et al.*’s (2003) expectation that sales managers wield considerable power in organisations, especially over their own resourcing.

Twenty (68%) respondents had over ten years’ experience of sales management, and so were able to compare current conditions for resourcing decisions with pre-recession conditions.

The extensive experience of the respondents in this sample also underlines why they can be considered as opinion leaders in their profession, and a suitable sample for the research question.

4.2.4 Propensity to outsource

The attribute of most interest about the sample is the experience of outsourcing sales activities. Propensity to outsource has been measured as the percentage of activity in a function that is managed by contracted third parties (Gilley & Rasheed, 2000). Eight (28%) respondents were not currently outsourcing any activities; nevertheless, those respondents had prior experience of outsourcing and were able to comment on it. Seven (24%) respondents were extremely selective about outsourcing (propensity to outsource of 1-5%). Of these, three expected to be doing more outsourcing in the near future; three explained that they had recently been reducing outsourcing.

Twelve (41%) respondents reported positive experiences in using contractors, seven (24%) described the degree of success as mixed; three (10%) were neutral (success "About the same") and two (7%) had notably negative experiences. Analysis of the narrative comment to the prompt about degree of success reveals that tight control is sometimes perceived to be a qualifying factor in success (see later section). Comments made by respondents include: "If it's been very tightly defined" (R22); "Because it's been specific... it's been very focused" (R15); "Because you can technically define (what) the limits are, what you are paying for and what should be delivered" (R11).

The sample reflected three roughly equal scenarios: no outsourcing of sales activities (28%), limited outsourcing of sales activities (propensity to outsource 1-10%) (34%) and some outsourcing (propensity to outsource 11-100%) (38%).

Oh (2005) reported an average of 17% outsourcing intensity in the IT sector. The cases explored in this study suggest a lower mid-point. However, an average would not say much about the range of outsourcing intensity in the sample.

4.2.5 Sales activities outsourced (Research Objective 3)

Respondents were asked about which particular activities were being outsourced. Two (8%) focused on outsourcing lead generation and qualification, for example: “Running short term three month lead gen(eration) projects into different vertical (market)s” (R15). Most (55%) of respondents reported outsourcing particular customer segments, product types or geographical territories (or mixes thereof): “The only time I’ve used a third party is to cover a particular territory” (R17); “We use them for what we would call the small and medium accounts” (R21). There is much evidence in the sample of a pattern called “out-tasking” by Krishnamurthy *et al.* (2009), “granularity” by Watjatrakul and Drennan (2005) or “chunkification” by Aron *et al.* (2005). As described by Novick (2000), in the case of sales outsourcing, hybrid or partial arrangements are the norm.

There were only three mentions of outsourcing key accounts, generally they were not considered suitable for outsourcing. As one respondent put it: “Relationships matter – I have never felt obliged to outsource a relationship” (R6), and another: “In the long-term from a key account, or key client management point of view, it’s better to employ” (R15). However, an interesting minority did outsource key accounts in response to the challenge of accessing relevant skills.

These answers are consistent with a resource-based view approach to resourcing the sales function, i.e. that specialist skills would be contracted to cover activities that would not get sufficient focus in-house. Twenty-one (72%) respondents preferred to have a choice of resourcing options when asked about achieving flexibility; on the other hand, five argued that employees offer enough flexibility.

4.2.6 Resourcing challenges and priorities

Sales managers were asked in the early stages of the interview about the biggest challenges they had experienced in recent years. It was clear that there was considerable resonance with the themes from the literature that seek to explain or predict resourcing decisions. Towards the end of the interview, respondents were asked for their priorities in sales resourcing. Skills were again dominant, followed by cost and flexibility. Control was not a priority, which was the first indication that it might be playing a somewhat different role in the resource decision-making process, which is discussed later in this chapter.

Respondents provided a great deal of detail about the consideration of costs, skills and flexibility in sales resourcing decisions, which is discussed below. Whether sales managers prioritise skills, cost or flexibility seems to be contextual, e.g. cost leadership companies have a cost-driven approach, and from the respondents' comments on prioritising resourcing considerations, it seems that there will always be some trade-offs between costs, skills and speed. The next sections explore the findings for the propositions explained in Chapter 2.

4.3 Respondents' perceptions of the role of costs in resourcing decisions

Proposition 1: Comparative cost of resource options will be an antecedent in "make-or-buy" decisions in the sales function

4.3.1 Introduction - a significant driver for a significant minority

“The cost *of sale,* has generally risen faster than inflation.... certainly in the UK” (R13).

For six (21%) respondents in this study, cost advantage was the key antecedent in sales resourcing decisions, and for different six (21%) it was the least important consideration in sales resourcing decisions. In difficult economic times, when competition is intense, a debate about the relative costs of employees and contractors is likely to be accompanied by a debate about the relative value that they deliver. Cost control is a real challenge to sales managers in a way that it might not have been when earlier studies were undertaken. The open question about resourcing challenges revealed that cost control or reduction was a significant issue for a significant minority of respondents.

Category of challenge	Number of mentions	Fit to main themes	Typical quotes
Cost control	12	Costs	“In this year our budget challenge was to reduce internal headcount, but maintain sales performance, so we obviously have to look at external agencies to bridge that gap.” R26
			“Competition is driving - is challenging the amount of money we spend on every customer now.” R3
			“Very, very tough, it’s almost like a restructuring every two years and unfortunately usually ends up in redundancies because of the pressure on the industry.” R4
			“Not necessarily the cost of goods ... but the cost *of sale,* has generally risen faster than inflation.” R13
			“You’re asked to deliver much more with much less resource... I’m sure that trend (is) set to continue.” R25
			“The biggest challenge is getting sufficient access to customers to be able to justify the expense of sales team.” R27

Table 15: Comments on cost control

In 1985 Anderson referred to the “the exploding cost of personal selling” (p. 234), Jones *et al*. reported in 2004 that 73% of companies were reporting that the cost of making sales was increasing, and in 2005 Anderson and Trinkle estimated that field sales can cost up to 40% of revenue in some industries. Not surprisingly, pressures to reduce costs were mentioned by eight (28%) respondents as a key challenge, and eighteen (62%) reported frequent discussion of sales costs. This is consistent with Groth and Kinney’s (1994) assertions about the importance of cost control in company performance. Nevertheless, as will be discussed shortly, eleven (38%) of the respondents reported that they had the luxury of working in organisations where the cost of selling was not a major cause for concern.

4.3.2 Do sales managers perceive that it is cheaper to employ salespeople rather than use agents/contractors or vice versa?

Fifteen (51%) respondents perceived sales employees to be more cost effective than contractors, seven (24%) regarded contractors to be cheaper and the remainder explained that they thought there were contextual variations. Two reporting that they were being used less because of cost concerns, and six commented that they were likely to be used more. Structural cost management should be relevant in designing the resource mix (Anderson S.W. & Dekker, 2009a), but context can make a lot of difference to the right resource mix. Of course, finding the right resource mix can be very difficult, as observed by vom Brocke and Lindner (2004).

Of the respondents who made favourable comments about the relative cost of contract sales or agents, most commented on their direct cost comparisons. There were also four mentions of headcount control policy, two mentions of the comparatively higher efficiency from third parties and two mentions of speed of deployment. These views are consistent with Ross *et al*. (2005), Landry and Pendrangi (2005) and Anderson and Trinkle (2005) who argued that contractors could provide better territory coverage than employees.

Perceptions that contractors are cheaper
Direct cost comparison
"There is high unemployment in some areas which drives down the cost." (outsourced telesales); "Our third party agents are paid at a much lower rate." "Cost recently has started to decrease...based on the fact that we have recently out-sourced some of our activity." R3
"I would struggle to employ a sales person or sales people of the same number directly on what we are charged." R21
"Salaries would be relatively similar but the add-on costs, pensions and all that sort of good stuff, I weasel out of if I contract out." R13
(we are) "Getting more income from the deal than previously we would have done." R10
Headcount concerns
"To keep costs off our balance sheet, and head count off our balance sheet, we've always employed external agencies." R26
"We might put together a nine or twelve month contract for a particular area, it would be very difficult to do that if it were a headcount position." R2
"There is quite a strong view on keeping head count down, and not taking on direct employees." R21
Speed of deployment
"You need to accelerate your sales within a certain time frame." R2
"From a short-term point of view, it's probably cheaper to outsource in my experience of lead gen and lead qualification purposes." R15
Efficiency
"They are more efficient on the amount of customers they can speak to per day." R3

Table 16: Comments on perceptions that contractors are cheaper

It is interesting to see the contexts in which contractors are perceived as cheaper, and arguably they have an underlying logic, portraying the contractors as lean, focused selling machines, rather like the image conveyed in Anderson and Trinkle (2005).

In the case of respondents perceiving employees as cheaper, the reasons given were more evenly spread. Three respondents did have detailed cost comparisons in favour of employees, on the basis of the margin taken by the contract sales organisation being higher than saved employment costs. They also provided evidence of employees being more efficient (for example, less drop-out of customers during the sales cycle, indicating better sales qualification at an early stage).

Six (21%), although being prompted to comment on a cost comparison, talked about the greater control over employees resulting in lower costs. This argument is consistent with transaction cost economics, where the cost of controlling a contract is the main predictor of organisational type. Williamson (1996) argued that economics must be combined with organisational science. Respondents with this view offered no specific evidence of the costs of control, and this perhaps reflects some comments about the academic study of transaction costs, i.e. that they are loosely defined and measured by disparate indicators (Grover & Malhotra, 2003; Macher & Richman, 2008). Equally, the respondents who argued that the skills investment in employees made them cheaper in the long run were not specific about evidence.

Perceptions that employees are cheaper
Cost comparison
"The reason it's cheaper is because the day rate is cheaper, their base salary is less than you would have to spend on an external sales agency, that's simply the reason." R8
"I have just done the analysis literally with HR this afternoon...if you employ a sales person you do not have to build in a profit margin." R27
"What we ended up with was a sales team that we just had to pay more for because we were also paying the overhead of a third party and I feel fairly strongly about that." R28
Efficiency
"The value you get from an employed person, the number of leads that they convert into sales, I'd say the ratio is higher for the employed person." R29
"In general I get a better return on an internal guy." R13
"It probably falls slightly in favour internally, based on the better realisation rate we discussed..." R26
Control leads to less cost
"It is cheaper to employ (because) you've got much greater control over the resource." R7
"If you have internal resource and then of course you can ask them to change whatever they are doing at any point in time." R11
"It's more measurable, I have more accountability, a bit more control on my return on investment." R18
Quality leads to less cost
"If you have employed somebody, you tend to have them for a longer period, so that the effort you put into training people...lasts a lot longer." R19
"Because what I'm buying is someone that can establish a relationship and sustain a relationship." R6
"If you are building a long-term business, with a long-term strategy, then having your own sales force will end up being cheaper provided you've got the right people, you've got the right training, you've got the right resource levels." R10
"Investment required to get the training and the induction needed would mean I would rather they were in-house." R12

Table 17: Comments on perceptions that employees are cheaper

4.3.3 How do sales managers compare costs between recruiting and deploying salespeople to do a task or engaging with a third party supplier?

"What is a cynic? A man who knows the price of everything and the value of nothing." (Oscar Wilde, 1892).

One respondent commented, when asked to explain how he compared costs "There's price and there's value" (R1). The literature on outsourcing suggests that cost comparison is a primary antecedent (Kakabadse & Kakabadse, 2002a; Kremic *et al.,* 2006). Powers (1987), Dishman (1996), Kaufmann (1999) and Landry and Pendrangi (2005) all found manufacturers' representatives to be considerably cheaper than employed salespeople on a cost versus price comparison, but the calculations used by respondents in this study seemed to favour employees.

22 (76%) respondents explained their cost comparisons, with varying degrees of detail. The critical component of timing was raised: "If it was a short-term thing then it means the cost of recruitment will be higher than going for a third party but if was over a long period say two to three years then the cost of recruitment still makes the internal recruitment cheaper than going with third parties..." (R27). Another caveat raised by a respondent was to make sure that a business case included "Any additional costs that would be caused by a third party" (R19), i.e. structural costs, as identified by Anderson S. and Dekker, (2009a).

Some compared costs per person or other variations on the cost of selling effort, such as the costs to serve a particular segment or territory. However, there are limitations to comparisons at this level. One respondent, who was able to quote a large amount of cost detail, explained: "We can do like-for-like comparisons on individual tasks....it costs around (number given) per cent less to employ contract sales to work on the same tasks, however to offset that my experience has been that they haven't been as successful, so whilst the costs are lower, the results are not equal to or higher, so I'm not getting the benefit.” (R13) Others also focused on the cost of making the sale: “The acid test is... their conversion (rate).” (R8)

Of course, some contract sales organisations/sales agents work on a business model that ensures a relationship between costs and sales, which is closer to the sales outsourcing model assumed in the literature (e.g. Ross *et al.*, 2005), and was more likely to give contractors a cost advantage. “They get paid quite highly for any sales they do make, so it's in their interest to make more sales: and if they're not making any sales they're not getting paid” (R26). Nevertheless, on the basis of the price/value argument, this model should take into account (and assign a cost to) the risk of discounting and a poor quality buying experience for the customer. The variabilisation of costs, while an advantage, does not necessary minimise sales costs overall.

4.3.4 Are the costs of selling a cause for concern?

Eighteen (62%) respondents reported that the cost of the sales function was a frequent topic of discussion within the company, some in quite strong terms: “Huge” (R15, R25, R27); “Always” (R18, R7); “A hot topic” (R19) and “To the point of it being a challenge to the way that we operate.” (R26) These sales managers might look in envy at the eleven respondents (38%) who reported that sales costs were not a matter of great concern: “Not a big issue” (R9); “Not a huge amount” (R10); “Not enough” (R22).

Although twenty-seven (93%) respondents classified their organisations as differentiated, rather than cost leaders, twenty-three (79%) reported that cost control *in general* was very important. Despite the recession, there still seems to be a mismatch in some companies, where cost control is important to the company overall, but the sales function has been buffered to some degree from expectations to reduce costs.

There is not much clarity about this anomaly, but two comments suggest that there are contextual reasons. “Costs of selling is generally only discussed once a year when we look at budgets, and that's because our cost to sales/selling is, as a ratio, low” (R13) is a clear rationale. Perhaps less objective, but indicating the dominance of skills over cost in a differentiated company, one respondent explained that “We’ve got to get the right people before we worry about the costs” (R9). The latter comment in particular has resonance with Anderson *et al*.’s (2003) views that the sales function has not been as pressurised as other functions to reduce operational costs.

However, for most sales managers, cost management is firmly on their agenda. The following comments are typical of the demands made on the majority of respondents:

- “Cost control is much more on the agenda than it has been or certainly was four or five years ago when things were good.” (R10)
- “Competition**...**is challenging the amount of money we spend on every customer now.”; “we’ve gone through a number of opex challenges (operational expenses challenges) recently to reduce costs.” (R3)
- “Very very tough, it’s almost like a restructuring every two years and unfortunately usually ends up in redundancies because of the pressure on the industry.” “I just think there’s a constant downward spiral on prices and then obviously the prices keep falling your margins are dropping and we have to keep within a strict cost structure so we have to adapt to that structure, it’s not just us, it’s everybody.” (R4)

- ”We had our massive market slump so we cut our cost by (number given) percent.”; “The market ...has suddenly gone from an all-time high to an all-time low.” (R11)

4.3.4.1 How are sales costs monitored?

Colletti and Chonko (1997) argued that one indicator of a sales function that is superior in performance is that it has sales costs less than its competition. One respondent commented: “Everything at the minute...just seems to be the bottom line and...restricted budgets” (R25). Nevertheless, there seemed to be few examples of systematic benchmarking of costs.

Twelve respondents reported that the relative cost of the sales function as a proportion of revenue was decreasing; eight said that their costs were increasing and seven reported that their costs were static. Not many respondents elaborated, but the opinion that more outsourcing decreased costs and that less outsourcing decreased costs were both observed. This seems to have resonance with the findings of Mpoyi and Bullington (2004) who found that changing the degree of vertical integration of a company seemed to improve productivity, but it was not clear whether more or less vertical integration was better. Each company’s context can be very different.

Two respondents commented that that they had reduced the number of salespeople employed in recent years. Another commented that the cost of the sales function was decreasing but the cost of making a sale was going up, reflecting the effect of the recession on buyers’ behaviour. Another pointed out that while overall sales costs were decreasing, the cost of employing an individual salesperson was still rising. This might be a reflection that the skills gap in sales means that a successful salesperson can still attract a premium reward, consistent with Coff's (1999) views that groups other than shareholders can accumulate "rent".

4.3.4.2 The relationship between pressure on costs and outsourcing

The literature would lead observers to conclude that that cost pressure would lead to outsourcing, with Kakabadse and Kakabadse (2002b) and Kremic *et al.* (2006) noting that cost reduction is the main benefit sought from outsourcing, and Jiang *et al*. (2006) observing that firms who make extensive use of outsourcing have a significant cost advantage. Although this study involved a small sample, it was the case that the two cost leaders had relatively high levels of outsourcing, consistent with the findings of Martinez-Sánchez *et al.* (2007) that cost leaders have a higher outsourcing intensity. (E.g. "To keep costs off our balance sheet, and head count off our balance sheet, we've always employed external agencies." R26).

Anderson *et al.* (2003) and Ross *et al.* (2005) expected companies outsourcing sales to be able to reduce costs. Among these respondents, those with higher levels of outsourcing seem to be somewhat more likely to perceive contractors as cheaper. This might be because they have bargaining power with their suppliers (Shervani *et al*., 2007). One extensive user of outsourcing mentioned that the contract sales organisations liked working with his brand. Alternatively, they may have developed superior skills in managing contract sales organisations (Leiblein & Miller, 2003) (see moderating factors below).

Respondents were asked fairly early in the interview about their perceptions of their relative performance on sales productivity, and towards the end of the interview, they were asked about control of sales overheads. These are separate things. Productivity was interpreted as a "Return on investment", whereas control of sales overhead was only part of that. Arguably, excessive attention to executional cost may not result in the best management of resources (Anderson S. W. & Dekker, 2009b). Only eleven (38%) respondents rated themselves better than competitors both on control of sales overheads and sales productivity. It was the case, as anticipated by Anderson *et al*. (2003) that some respondents preferred not to discuss productivity.

Labour productivity would be expected to improve with outsourcing intensity (Gilley & Rasheed, 2000; Girma & Görg, 2004; Martinez-Sánchez *et al*., 2007), however, all that can be noted from this study is that most respondents' perceptions of their performance relative to competitors on sales productivity does not seem to vary with outsourcing intensity.

Overall, there was far more confidence about control of sales overheads, perhaps because of the visibility of such a measure internally, although how much benchmarking really is being done with competitors is questionable. One "No comment" respondent pointed out that there is no reasonable way to access the data that would be necessary: "We don't ever get visibility of what our competitors are spending on sales activity". R26

Although the pressure to address the costs of selling seems to be less acute than in other functions, the impetus to find a lower cost business model was significant in some cases. Comments such as "Our sales target will stay in place, with a reduced headcount" R3; "We are having to work a lot harder for probably a lot less than we are used to" R5; and "You're asked to deliver much more with much less resource, much less expenditure" R25, suggest that the pain of the recession is still affecting sales resourcing decisions.

4.3.5 Do sales managers feel that there is enough information available to them on which to base cost comparisons between employment and contract options?

"I'm just basing that on gut feeling, I've got no hard data for saying that." (R9).

It has been claimed by Ross *et al. (*2005) that imperfect information about resource costs will lead to flawed decisions in favour of in-house, and there is evidence in this study that lack of information was a problem. In most cases, perceptions about relative cost advantages (in favour of contractors or employees) were just that, as only eight (28%) respondents felt that they had enough information on which to make cost comparisons. Twenty (69%) respondents said that they did not have enough information on which to base a cost comparison of employees versus contract sales organisations. Of those who were positive that they did have enough information on which to compare the costs of different resourcing options, half were using contract sales organisations extensively but not all of them perceived contractors to be cheaper. Arguably, firms who have developed competences in managing third parties have fewer problems with monitoring costs (which is consistent with the findings of Lieblein & Miller, 2003).

It is surprising to uncover a situation where 69% of respondents were admitting lack of information while 62% of respondents were reporting that the cost of the sales function was a frequent topic of discussion within the company. This should be a matter of concern. As Macher & Richman (2008) argued, the costs of a business function's design being potentially misaligned with the business environment should be explored and the potential solutions evaluated. Without sufficient information, hidden costs remain hidden.

4.3.6 Summary of respondents' perceptions of the role of cost in "make-or-buy" decisions

It is worthy of note that 20 (69%) respondents said that they did not have sufficient information with which to make cost comparisons, even in a climate of concern about costs of making sales and sales productivity. In many cases, perceptions rather than facts are driving decisions. There are no clear indications from these respondents that contract sales organisations are perceived to have a generally recognised cost advantage over employed salespeople. The evidence from both the outsourcing literature (e.g. Jiang *et al*., 2006) and the sales outsourcing literature (e.g. Ross *et al*., 2005) that contractors offer a cost advantage is challenged by the perceptions of the sales managers in this study.

Nevertheless, the two cost leaders in the sample did focus on cost and did observe a cost advantage in using third parties. Arguably, they have developed a competence in managing contract sales organisations, a moderating factor which is discussed in a later section. The development of a production cost construct is discussed at the end of this chapter.

4.4 Respondents' perceptions of the role of control in resourcing decisions

Proposition 2: The ease with which resource options can be controlled will be an antecedent in "make-or-buy" decisions in the sales function

4.4.1 Introduction

Transaction cost economics (Williamson, 1975; 1985) and agency theory (Eisenhardt, 1989) clearly expect hazards in contracting-out, caused by the diffusion of control. Ford *et al.* (1993) noted that “loss of control” (p. 211) was the main disbenefit of buying-in resources rather than employing salespeople, even where cost calculation suggested that outsourcing was desirable. Concern about loss of control was evident in this study, with respondents discussing concerns about “lock-in” and dependency, and expressing agreement with the view of some researchers that relationships with contractors have to be highly structured to be successful (Barthélemy & Quélin, 2006; Daugherty *et al*., 2006). However, concerns about dependency on employees weakening internal control were also evident, consistent with Phillips (1982) and Onyemah & Anderson (2009).

Attitudinal comments about third parties/contractors	**Fit to main themes**	**Typical quotes**
Negative	Six respondents specifically mentioned “control”; five others used control-related expressions.	“More monitoring required of a contractor than someone who has a long-term interest within the company.” R1
		“The tail wags the dog, eventually.” R13
		“You lose a degree of control when you outsource to an agent. Quite often they're small companies, and they will do (what) suits them.” R16
		“I’m not a fan of using third parties just on account of accountability.” R18

Table 18: Comments on third parties/contractors

Despite concerns about control factors when using contractors, in one of many contradictions discovered in the course of discussing control issues, when respondents were prompted to comment on whether or not control issues had any impact on their use of contractors, the answers were generally neutral (only one respondent described it as a priority in sales resourcing). This pattern seems inconsistent with transaction cost theory, and in particular with Anderson's (1985) and Krafft *et al.'s* (2004) studies which found that performance control factors would predict whether a sales function was insourced or outsourced. It is also noticeable, given the comments made when discussing challenges (see below), that controlling/motivating internal teams is not necessarily any easier.

Category of challenge	Number of cases	Number of mentions	Fit to main themes	Typical quotes
Motivation	12	15	Control	"Maintaining morale in the face of a softening market and lowering condition levels and therefore lower income, maintaining the morale and keeping people motivated I would think was the most difficult part." R1
				"...personal issues that you have to deal with, being a manager." R29
				"It's about getting the right kind of productivity from people and also trying to develop people." R10
				"Getting people to perform the way you would like them to perform is very challenging," R12
				"It's a lot more difficult to...actually coach and train people that are...remotely based." R19
				"The bonus structure can cause difficulties, in that it can send people off or motivated in the wrong direction." R21

Table 19: Comments on motivation or control

The distinction between motivating employees and controlling contractors seems to emerge in detailed discussions, and this is explored later in the exploration of organisations and individuals' ability to manage third party resources in the section on Proposition 6.

4.4.2 Do sales managers perceive that employed salespeople are easier to manage than third party contractors or vice versa?

Respondents were asked about their general views on control of salespeople versus contractors, and specifically about controlling behaviour, which seemed to prompt more comment about the contrast between measuring inputs and outputs. In the sales literature, there is evidence that behavioural control of salespeople yields better results than outcome control (Baldauf *et al*., 2005). In the case of studies of sales outsourcing (Anderson, 1985; Krafft *et al*., 2004), there is an indication that work that is easily measured, i.e. measured by short-term outputs, is most suitable for outsourcing. The users of contractors in this research had a similar approach. They mentioned a number of measurements such as call rates, appointments made, conversion rates, sales volume and gross margin. One respondent mentioned key performance indicators which encompassed outcomes and behaviours, but most CSO users focused on outcomes, which are easy to measure. Respondents who made extensive use of contractors perceived contract performance as a fairly easy mechanism:

- "We contract for a certain level of performance and they have to deliver it." R8
- "We always have in an allotted timescale with a clear objective, whereas sometimes within a (internal) sales function, I don't believe objectives are, well, set correctly." R15
- "I have....us(ed) an outside sales source, for a very short time, but only on the basis that we get a strict return on investment." R17
- "The contract sales people, I have to say they are generally focussed on activity, hitting the numbers." R2
- "If they are not performing then they take a proportion of that risk." R3
- "With a third party I would tend only to enter into contracts where it's

payment by results." R10

- "Every contractor would....do a monthly review, and that's a very rigorous performance review." R14
- "I would say it's usually successful because you can technically define what the limits are, what you paying for and what should be delivered. The expectation is clear and probably easier to evaluate and measure." R11
- "I would always make sure that any third party I was going to be utilising would actually have systems in place to... give me metrics of what they've achieved, what value for money they've achieved and communicate that to me." R13
- "The quality of information and reporting I get out of our third parties, because this tends to be the bread and butter of what they do, it seems to be far better than I would get internally." R26

The indications here are that if contracts are tight (as advocated by Barthélemy & Quélin, 2006; Daugherty *et al*., 2006) and they are tied to output performance which can be easily tracked and measured, relationships with outsourcing vendors are more likely to be positive; i.e. contract performance is a key element in building trust and commitment (as observed by Goo & Nam, 2007).

Nevertheless, monitoring is not always enough. A few respondents indicated that even with robust contracts, third parties do not always deliver. Comments such as: "They've been heavily monitored in terms of performance and the outcomes have been mixed" (R6) and "There's a slightly lower degree of realised sales" (R26) can be associated with a perception of a more formalised management approach: "The difficulty of managing a contractor is...dealing with performance issues and things like that. So I think it requires greater process." (R27) Pro-active relationship management is necessary for better performance (Brown *et al*., 2000; Handley & Benton, 2009), and it seems for some sales managers that it is time-consuming and irritating. Difficulties in evaluating performance were observed by Weiss and Anderson (1992) to be a primary motive for insourcing sales.

The examples of solid long-term relationships with particular sales channel partners were exceptional, although those relationships were clearly delivering mutual benefits. As observed from the resource-based view, coalitions can be effective (Hamel & Prahalad, 1994; Dyer & Singh, 1998). However, very few respondents talked about the positive effects of interdependency that has been observed with manufacturers' representatives in the US (e.g. Kaufman, 1999).

The implication could be drawn that management of internal salespeople is more open-ended. As Coase (1988) put it: "Integration creates a different institutional setting" (p. 31). One respondent perceived ease of control internally, asserting that "I have performance planning and improvement models to deploy should a sales person not be performing" (R18); another perceived that "It's like herding cats" (R26). It is interesting to note that many respondents seemed to find that generating performance from employed salespeople was rewarding, and the hub of their management skills: "It's fundamental that we get the best performance as possible and that they are hugely motivated and fulfilled" (R6); "You are looking to improve people's performance and develop them as individuals" (R10).

The fact that managers perceive employed salespeople to be easier to control suggests that the nature of the written contract is not necessarily the main issue for sales managers in different managerial relationships. Therefore the "lens of contract" which is the focus of transaction cost economics (Williamson, 2005a; 2005b) must encompass something broader. The "psychological contract" (Schein, 1979) that has been observed between employees and their employers may be very relevant in the sales function, although more has been written about the salesperson's trust in the manager (e.g. Flaherty & Pappas, 2000) than the sales manager's perceptions of the contract.

4.4.3 How do sales managers compare management effort between recruiting and deploying salespeople to do a task or engaging with a third party supplier?

Start-up costs in resource acquisition are bound to be variable (Hooley *et al.,* 1998). Respondents commented on the significant amount of time and effort in recruiting salespeople, and the difficulties in finding the right skill set and personality fit to work in their organisation. The cost of recruitment fees was also mentioned a few times as an inhibitor to employment. This can be compared with comments about setting up contracts with third parties. Where comparisons were made by respondents who regularly used contract sales organisations, some mentioned the advantages of using them to increase resource quickly, a condition noted by Holcomb & Hitt (2007).

Recruiting individual salespeople	Setting up contract with third parties
“That's quite a lengthy process, to get a decision made on bringing in new heads.” R26	“There is a great deal less management effort in deploying external third parties.” R8
“It would take three months to get a head count position.” R2	“It’s a lot less management effort when (supplier name) are employing people.” R21
“The majority of our management team would be involved in that process for recruiting internal candidates.” R3	“They've typically got better training teams, better recruitment teams.” R26
“There’s a lot of my time and management team’s time goes into making sure we’re getting the right people.” R7	“We would be expecting them to manage that recruitment process - obviously it would take a lot less time from our side.” R3
“You've got to define a job description, a scope, a role. Get that signed off. You've got to go through the interview process, the selection process. It's a lot longer, and deeper, activity.” R22	
“When I employ people I have to pay the recruitment agency fee up front.”; “To train a salesperson from recruitment to when they’re a hundred per cent productive - seven-and-a-half months.” R13	

Table 20: Comments on recruitment or contracting

Nevertheless, there is management effort involved in identifying suitably qualified contract sales organisations to be on an approved supplier list, ready to be deployed. Ten (34%) respondents described an extensive formal process. A business case is needed, due diligence must be performed, and senior management time is involved. Instead of working with the Human Resources department, the sales manager is working with Procurement. Companies that have a strategic approach to using contractors have preferred suppliers in place to accelerate deployment:

- “We evaluate third party organisations, we have over the years evaluated them several times, but we have consistently used one company.” (R8)
- “If we want to take a new one on we do a due diligence on them, we enter into a formal agreement signed by both parties which sets out the parameters of what we expect, what the obligations are, what commission levels will be paid and that’s reviewed on an annual basis.” (R10)
- “We will approach maybe six shortlisted vendors. ...some of those vendors would have been proposed by ...people on the selling side of the company... Some will be known to the procurement side and ... there will be a technical evaluation, a commercial evaluation.” (R11)
- “We’d appoint an internal project manager, we'd go and ....do the research on who the players are, we’d hold beauty parades, and then we'd see which two or three we could work with.” (R13)

In addition to the effort involved in identifying preferred suppliers, there is still an element of matching the supplier to the task:

- “(We) design a brief, based on what targets we want to achieve, who we want to speak to, what type of person within the organisation we want to talk to, so there would certainly be a bit of pre-work on our part.” (R22)
- “We'd start talking detail about what we actually are looking to do, what our objectives may be, what our expectations would be from them, and

> therefore their expectations from us. And then we'd take it through our procurement processes to put together a deal and a contract." (R13)

As suggested by Bartholémy & Quélin (2006), it seems that setting up a systematic process for engaging with contract sales organisations makes sense either for organisations for whom they are a regular proportion of sales resource, or for those who might wish to use them task by task, one respondent flagged up, that for him, there is still a human element to explore: "I've either actually requested myself or my senior management to meet with the individuals." (R15)

All those activities have to be undertaken before the deployment of contract sales resource. There are also different activities after contractors are deployed, which are discussed further in the section on proposition 6.

4.4.4 How important do sales managers think it is to monitor the behaviour of salespeople or contractors?

Although there are widespread perceptions that it is more difficult to monitor the behaviour of contractors than employees (see comments in the table below) it is also clear that companies who have a lot of experience with contractors have relational and behavioural controls in place, as suggested by Brown *et al.*, (2000) and Handley & Benton (2009). These are also illustrated in the table below.

Concerns about contractors’ behaviour	Approaches to behavioural control of contractors’ staff
“I think with a contract sales person you have to make sure that they actually are working.” R2	“We try to encourage them to use the same kind of process as with our internal staff so that we can benchmark it and it might mean that they have the same kind of score card.”: “Contractually we put in place call monitoring processes so that they have to listen to x amount of calls and provide us with a copy and summary of comments at the end of each month on what’s gone well, what needs to improve and how they would go about doing that.” R3
“We have much more understanding of what they’re doing (employees) and what we expect them to do, and we can (put) the systems in place to do things about it.” R13	“We're a heavy compliance-led industry, and we have some strict criteria ...we've just got rid of an agent recently who failed to meet their compliance standard.”: “Clear objectives, joint visits, joint control, joint call tasks...there’s very little that they can get away with on their own.” R15
“I just think in general you have just got much more control throughout the whole sales process of what an employed sales person is doing as opposed to a contractor.” R10	“We monitor and record all of the telephone calls both from our internal and our external sales people; all of those calls are recorded and from time to time we will listen to them.” R8
“Trying to exert the control over third parties, depending on the relationship, and how it’s set up, can be much more difficult and less transparent.” R20	“We are...starting to introduce a more formalised review of customer satisfaction.” R21

Table 21: Comments on contractors’ behaviour

Perhaps as a result of the tough economic times recently, no respondents mentioned specifically bad behaviour by salespeople as described by Jelinek and Ahearne (2006).

Indeed, there was widespread faith in employees’ ability to identify with their employer and to become a "stakeholder" in the business, as demonstrated in the comments in the table below. As observed by Wieseke *et al*., (2009), there was a perception that identification with their employer would be associated with better sales performance.

Salespeople as organisational citizens	Contractors as independent agents
"My perception is that it's ...easier to manage someone who actually has a stake within the company, who feels they are part of the company..." R1	"One problem with sales agencies is quite often they've got their hands in many baskets...so you don't get a hundred per cent share of their minds." R16
"There is no doubt that the people who are employed by the company directly...feel a greater sense of belonging and a greater sense that they are part of the company....going to a third party contract does have a price to pay in so far as perhaps losing people that have got strong value bonds with the organisation." R27	"There's no loyalty with these organisations. They have a ... very high churn rate, which doesn't enable a company to become culturally aligned as much as a directly employed individual." R18
"The industry itself favours head count sales people rather than contract sales because they feel that they are a lot more committed." R2	"The problem that I foresee, I suppose, with the third party contractors is that they might not be sold into the company fully and might not be prepared to...take on board the ethics of the company fully." R19
"When you are fully employed by one company you work all kinds of hours." R11	"I think the fact that we are two companies can sometimes enable them...to be more outspoken about anything they disagree with or don't want to do....because they...are employed by another party." R21

Table 22: Comments on perceptions of employed salespeople as "stakeholders"

4.4.5 Comparing the legal framework in the UK for employment contracts versus normal commercial contracts, which do sales managers perceive to be the easiest to change?

There are frequent references in transaction costs economics to "the lens of contract" (Williamson, 2008), so respondents were asked specific questions about the ease of working with employment contracts versus commercial contracts to supply. Commercial contracts (i.e. working with contract sales organisations) certainly seem to be considered more adaptable contracts than employment contracts. This is predictable given that most respondents were only using contract sales organisations on short-term contracts. This is consistent with the model described as "out-tasking" (Krishnamurthy *et al*., 2009) which is intended to minimise the negative compromises of outsourcing.

Opinions about the nature of contracts seem to contradict the managers' overall perceptions, and the assumptions of transaction cost economic theory, that vertical integration is the most adaptable organisational form (Williamson, 1991) (See details in 4.6.5). Eight respondents qualified their answers to this question with expressions of frustration with employment law. Although three mentioned employment law being more constraining in France, Germany and Holland, of course the UK is subject to EU law as well. Incumbents defending the status quo and resisting change were phenomena known to the sales managers in this study, and these narratives support the expectations of Ansoff (1987), Hambrick & Cannella (1989) and Sliwka (2007) that, contrary to transaction cost theory, employee compliance cannot be assumed.

Two also commented on how employment law affects contractors. One respondent explained how his preference for contractors had been constrained by employment law. There are a number of criteria under which contractors can quickly accrue employment rights; for example, if they are perceived to be managed by a manager in the client rather than a manager in the contract organisation. Employment law creates very visible imperfections in the power/control relationship between managers and employees, but it can also constrain the potentially desirable contract business model of a contractor working within an internal team. Suffice to say that employment law distorts sales managers' views about contracts *per se*, so that it does not reflect their views about performance control in general.

A critical consideration with either type of contract is whether or not there is performance to contract. As one respondent put it: "Getting people to perform the way you would like them to perform is very challenging" (R12). Outsourcing in other functions has often failed to deliver performance improvements (Bahli & Rivard, 2003), and channel relationships in particular have a high failure rate (Mohr & Spekman, 1996). Particularly if performance is difficult to measure, the insourcing of sales activities is likely to be preferred (Anderson & Schmittlein, 1984), and there is support for that view in this study.

4.4.6 Summary of findings concerning control

In discussing relative experiences of managing employed salespeople versus contractors, there is a likelihood of self-fulfilling prophecies; i.e. sales managers who perceive or expect control problems with contract organisations might not investigate the availability or quality of suppliers. Nevertheless, it is fair to conclude that, for the most part, the comments of the respondents in this research are consistent with transaction cost economics' explanation that the expectation of contractual hazards leads to a preference for insourcing (Williamson, 1975; Mayer & Salomon, 2006). However, this preference is not necessarily an antecedent for a "make-or-buy" decision, and it might be offset by the ability to manage different resourcing options.

4.5 Respondents' perceptions of the role of skills in resourcing decisions

Proposition 3: The comparative skill level of resource options will be an antecedent in "make-or-buy" decisions in the sales function

4.5.1 Introduction – a resourcing priority

"There's no shortage of supply; it's quality that's the problem." (R7).

Most respondents considered skills a priority when making resourcing decisions. In both the transaction cost economics view, and the resource-based view, the skills of salespeople is an important influence on "make-or-buy". Skills are rent generators (Newbert, 2008), and the seminal empirical RBV study on sales (Menguc & Barker, 2005) focused on particular skills which deliver "rent". Anderson (1985) commented that the only asset specificity in the sales function is the salesperson's skills, and from the transaction cost economics point of view, uniqueness of skills should lead to insourcing (Geyskens *et al*., 2006). Nevertheless, the literature indicates that just having a directly employed salesforce does not create superior value (Guenzi & Troilo, 2007).

Access to skills can also be an argument for outsourcing; Kakabadse and Kakabadse (2002a) noted that access to skills was expected to be an important reason to outsource in the future, Safizadeh *et al.* (2008) suggested that access to skills should override transaction cost considerations and Anderson and Trinkle (2005) argued that it was the second-most important reason to outsource sales (after costs). With this particular sample of sales managers, a large proportion (52%) regarded skills as the priority in making resourcing decisions, and 83% regarded employees as more highly skilled than contractors. However, tactically and cautiously, some were using outsourcing as a means of accessing skills and enabling better coverage of particular customer segments, as recommend by Ansoff (1987).

4.5.2 Perceptions of a skills gap

Consistent with findings on asset specificity (David & Han, 2004) and the resource based view (Wernerfeld; 1984; Prahalad & Hamel, 1990; Barney *et al.,* 2011), respondents in this study appeared to be making competency-based judgements about which sales activities to outsource. A typical split was employment preference for key account managers and contracting out tactical sales. The thinking process seemed to be without prejudice in many cases, just a matter of contracting out: "Where we have got an internal skill gap" (R27); "Where we identify areas where we don't have the skill set internally" (R20).

Category of challenge	**Number of mentions**	**Fit to main themes**	**Typical quotes**
Availability of skills	13	Skills	"It's been more difficult to get the right calibre of sales person in that period than I have ever experienced before. It's been high volume in the market place, but low quality." R7
			"It's pretty much been trying to find the right people with the right experience and qualifications to match the roles and skills that we want." R18
			"Sometimes it can be challenging to get the right level of professionalism." R21

Table 23: Comments on perceptions of a skills gap

Availability of skills was the most frequently quoted challenge that respondents faced. Perceptions of a "skills gap" were evident, and 19 (66%) respondents commented on the impact of sales skills (or lack of them) on the business. As one respondent put it: “Skills and aptitude, it’s what I’m looking for first, because that’s got the highest impact on our reputation.” (R7) The MSSSB findings in 2008 of a significant skills gap in sales might have been moderated in some sectors by the recession, but a number of respondents still reported that the impact of skills availability on their resourcing was still difficult in 2011. One commented: “The practice of hiring senior sales people or indeed any salesperson, is not something that is easy” (R6); similarly: “If you need to change and build a skill set, that’s going to take probably a year or two.” (R27) As Ansoff (1987) noted, there is a time lag in developing new skills internally.

Observations were made that that selling has become more complex, with “solutions” being required more than products, a trend identified in the key account literature (e.g. Ryals & Holt, 2007). One respondent explained: “ten years ago, people would go out and buy a simple box to do a test. Now they are looking for solutions to improve the process” (R9). In some cases, skills would override other important criteria: “The right skill set will breed the right results and ultimately then will pay for itself” (R15). The topic of skills evoked some strong statements from respondents, such as: “Essentially it is the promotion of our added value proposition and I feel very strongly about it” (R21); “If you haven’t got the right person, and you haven’t got the right skills, then the rest of it is irrelevant, and all your costs will go through the roof and you wouldn’t end up getting what you were wanting (strongly felt)” (R29). The view of Holcomb and Hitt (2007) that specialised capabilities create value for firms has support in this study.

4.5.3 Respondents’ views on filling the gap

Some mentioned perceived skills deficiencies in contractors being the reason for not outsourcing, but a few took a different view – the difficulties inherent in accessing skills was a reason to outsource, albeit to “plug some holes.” (R24) One respondent said: “(I’m) a great believer in moving activities out of the organisation’s main control where it’s non-core or could be provided better by somebody else” (R20). Outsourcing non-core activities is a common them in the resource-based view (Espino-Rodríguez & Padrón-Robaina, 2004), but three cases of outsourcing “core” sales activities, such as key account management, were also observed: “There are some things where we just intellectually even don’t have the capability internally (which is not a skill that we have within our employee base) so that would sometimes go out...to the agency” (R27). These were sound examples of selectively acquiring good practice, as advocated by Hamel and Prahalad (1994). There were extensive users of outsourcing who appeared to have been doing so to access skills, and this is consistent with the view that access to external talent can overcome internal constraints to growth (Kor & Mahoney, 2004).

4.5.4 Do sales managers perceive that employed salespeople are more skilled than third party contractors, or the other way round?

Overwhelmingly, regardless of patterns of usage of contractors, 24 (83%) respondents felt that employees were more skilled than contractors. This was the case in a number of instances where respondents had substantial experience of both, and data to compare. This suggests that respondents tended to agree with the resource-based view that if a resource is firm-specific or unique, in-house gives better results (Espino-Rodríguez & Padrón-Robaina, 2006). Where companies are outsourcing sales activities, it is usually the case that those activities are perceived to require less skill and knowledge. For example in healthcare, where detailing new treatments to General Practitioners is frequently outsourced, while relationship-building with large decision-making units in hospital trusts is usually insourced (Rogers, 2008).

“With an employee you have higher aspirations, and expectations, and standards for that employment, for that task. I think it's just the nature of the tasks, and the sophistication of the tasks, that you're expecting people to do. In our instance it's often the more sort-of higher intensity and sort-of lower skilled tasks that get outsourced” (R22); “(Our) employed people are more skilled, yes, definitely... there are more senior types (employed) sales persons - our key account management or industry sector management, whereas our third party guys are....more of a general sales force.” (R21) Implicitly, these sales managers appear to be avoiding outsourcing where there is a risk of learning loss, as found by Park, Lee & Morgan, (2011).

In the literature, the view that selling skills *per se* are a commodity is found (Kulkarni & Ramamoorthy, 2005), but they should not be dismissed as lesser skills as they have a significant influence on sales performance (Churchill *et al*., 1985; Verbeke *et al*., 2011). However, in many business-to-business contexts, the sales role requires in-depth knowledge about the firm and its products (Wilson & Zhang, 2002; Verbeke *et al*., 2011), or selling depends on teamwork with or influence with other departments (Williamson, 1979; Menguc & Barker, 2005; Safizadeh *et al.*, 2008; Evans *et al*., 2012); in these cases salespeople should be employed. This pattern appears to prevail in this study.

Another factor to be taken into account is that respondents were clear that employed salespeople usually got more training and development, so they would be expected to have better skills: “I do feel quite strongly that they are much more competent because of the level of investment I make in them” (R7); “The clinical knowledge or the technical knowledge of the in-house guys, it probably tends to be greater... a product of the fact that the in-house guys have probably had a longer, more in-depth training programme” (R25); and one respondent put it bluntly: “Directly employed sales people, get more training, they’re more accountable, versus the third party which in my experience tend to be less experienced – they’re just bums on seats.” (R18) Sales outsourcing studies (Anderson, 1985; Wilson &

Zhang, 2002 and Krafft *et al*., 2004) all found that where a high level of training is needed, sales would be insourced, and respondents in this study tended to follow that trend.

There was some acknowledgement that outsourcing was a means of acquiring skills that would be difficult to develop internally, or it could be used to create a mix of internal and external that would be beneficially dynamic, which is consistent with Hamel and Prahalad (1994). In particular, there was a view that if something had to be done very quickly, contractors were preferable, consistent with Holcomb and Hitt's (2007) view that companies could enhance their capabilities by leveraging other companies' resources. Respondents who felt that they were better than competitors on revenue growth or winning new customers appeared to be using higher levels of outsourcing, suggesting that accessing selling skills from third parties appeared to be working for them. "Recently winning a contract and then selecting... a contract sales organisation to fill two territories. The business came in very, very quickly" (R2). There is evidence here of building "dynamic capabilities", as advocated by Helfat and Peteraf (2003).

For the most part however, companies were not in a growth phase, and sales managers' preference for employed salespeople could be discerned, in line with Anderson *et al*.'s (2003) expectations, and Zoltners *et al*.'s (2006) view that contract sales organisations cannot be used for complex sales situations where a high level of skills and knowledge is required.

Nevertheless, respondents who had no outsourced activities were not exclusively wedded to the idea that employees were inherently better skilled. One had been working on a "temp view to perm" basis with contractors and they had all recently been transferred to permanent employment; the other was planning to outsource to gain access to some specific skills. Similarly, those companies who were employing a large proportion of contract sales resource were not wholly wedded to the idea that contractors were more skilled, but opted to explain contextual differences.

Other nuances were explored. Developing differentiation is, according to the resource-based view, the route to better competitive performance (Selling & Stickney, 1989; Hooley *et al*., 1998; Hoopes *et al*., 2003), and it would most likely be supported by firm-specific selling skills, as observed by Wilson & Zhang (2002). 27 (93%) of the respondents involved in this study said that they were working for companies who differentiated their value proposition. The cost leaders (2) were undertaking substantial outsourcing, but so were nine companies who were differentiated. Only where service was the key differentiator was outsourcing particularly eschewed: "The key thing that we have is this unique relationship with our customers where we deal direct and we're able to offer a higher level of customer support than other manufacturers within the industry" (R19).

Another possible variation by context was the nature of the customer portfolio. It might be expected that a concentration of very complex customers would be associated with higher levels of specific sales skills and therefore a tendency to consider that only employees could develop the desired skills. Indeed, where respondents were managing a key account-style mix (up to 20% of customers deliver 80% of revenue) the perceptions that employees are more skilled was strongest. "I will only ever employ people directly, because what I'm buying is someone that can establish a relationship and sustain a relationship, and that's not something I'm prepared to outsource....it is very important, the trust element…somebody is betting their career or their pension on a solution, or promise of value that's being offered." (R6)

This is consistent with the key account management literature, where there is an underlying assumption that key account managers are highly skilled employees (McDonald *et al*., 1997; Wilson & Millman, 2003). Most respondents made favourable comments about employees' skills, while opinions about the skills of CSOs were mixed. In justifying a preference for employees, some respondents had objective criteria, such as:

"We generally see that our internal staff come out graded higher when compared against our third parties"; "We would typically operate with about (x)% realisation from our internal teams, against about (x-10)% with an external agency". (R3)

Just as there are defenders of contract sales organisations in the literature (Anderson *et al*., 2003; Ross *et al*., 2005), there were defenders of CSOs in this study, who made broadly supportive statements such as: "A third party agency is as effective as our internals are, typically. They're as enthusiastic, they're at least if not better trained, their product knowledge is always very good, and they operate as if they are part of an internal team. There is very, very little difference between the two." (R26); "The pool of resources they had available to them matched the requirements... I have to say the organisation that we used matched our requirements very closely, and I feel relatively strongly about that." (R28) Although a minority view, sales managers can get what they want out of contract sales organisations to fill some specific skills gaps.

4.5.5 How do sales managers compare the skills of employed salespeople with the sales skills that are available from third parties?

There is no consistent approach when it comes to skills comparisons. Context is very important. Respondents were asked how they make skills comparisons. Context can make comparison difficult, as one respondent explained: "How I would go about comparing them? I'm struggling because I would never employ contractors and externals to do the same as I'm employing internals (employed people) to do and therefore a comparison would be more difficult". (R7) But there were some specific examples of comparisons. These included both informal/unstructured such as "(I) requested (that) myself or my senior management meet with the individuals…” (R15); “I would be keen to find out about what plans or ideas they would bring...maybe do a dummy presentation” (R19). There were also examples of more formal processes involving evaluation criteria, competency-based questioning and skills assessments such as role plays and business case scenarios. In one case, contract staff would go through the same assessment centres as full-time employees. The literature offers little guidance on comparisons other than the quest for uniqueness. It seems that, consistent with the expectations of researchers such as Porter (1996) and Newbert (2008) the sales managers in this sample are trying to access, combine and exploit internal and external resources within the sales function, in order to achieve competitive advantage. They are implicitly or explicitly aware of the importance of good selection and direction of resources, as recommended by Phelan & Lewin (2000).

Where both employed and contract sales teams are in place, which is often the case in telesales, comparison can be much more detailed on the basis of performance. Metrics might include number of calls made, number of customers they've spoken to, conversion for each stage of the sales cycle, output in terms of the volume of sales against the target that's been set and calls can also be reviewed for quality and compliance to industry or company ethical codes. Complaints and level of dropout throughout the customer lifecycle would also be tracked. Where impact can be measured, resourcing decisions are more straightforward, as expected by Aubert *et al*., (2004).

4.5.6 How does the training investment in salespeople and contractors compare, and in particular how much comparative investment is made in training about company culture, products and customers?

Probably the messiest answers on the tapes came when respondents were asked to explain how much training employees and contractors got. Their answers, comparing training given to employees and training given to contractors, are summarised in the table below:

Employees			Contractors		
Company culture	**Products**	**Customers**	**Company culture**	**Products**	**Customers**
1 week	2 weeks	2 weeks	1 week	Not clear	2 weeks
20 days per year			2 days per assignment		
3 weeks initially then 2 days per month			3 weeks initially, on-going coaching is up to the contractor		
2-3 days	5-6 days per year	On-going	Minimal due to resistance to “time off the road”		
20 days per year			One week per assignment		
21 days initially			Not applicable		
30 days			3 days		
Team already very experienced			Few days		
2 days per year	2 weeks per year	1 day per year	Probably similar due to compliance requirements		
3-4 days	3-4 days	Three weeks	3 days per year		
12 days, plus updates			Not known		
Half day	Two weeks	Half day	Not applicable		
It takes several months for a salesperson to get up to speed.			Four weeks	Two weeks	?
40 hours per year	40 hours per year	40 hours per year	Probably about the same		
2 weeks induction	2 weeks	4 weeks	2 weeks induction for team leader	2 days (specific product)	2 days (specific segment)
3 months			One week		
6 months overall to get up to speed.			Not known		
6 week induction and on-going coaching			Not applicable		
90 day induction and regular updates (nine days per year on product and 2 on customers)			None	Four days	Two days
On-going	Three weeks per year	On-going	2 days per year	Three weeks per year	?
Two days	Seven days	None	Five days per assignment	Seven days	Ten days
Two to three weeks per year			Seven to ten days		
Two days	One week plus distance learning	One week	One day	One week plus distance learning	One week
Five days	Ten days	Few days	Five days	Ten days	Few days
Seven weeks			Three weeks		

Table 24: Summary of training given to employees and contractors

It seems that contractors get less training than employees, which may reflect the type of tasks or the length of contracts. One respondent admitted: "I think we support the in-house guys better than we do the outsourced guys, which is a terrible shame but that's just the reality sometimes" (R25). So there may be an unfortunate reinforcing loop - contractors have fewer skills because they get less training and vice versa. Generally, highly skilled sales jobs such as Key Account Management require more training and are generally the domain of employees (McDonald *et al*., 1997). The findings of Anderson (1985) and Krafft *et al*. (2004) that the more training is needed for a sales role, the less likely it is to be outsourced, seems to have support in this sample.

There are some comments about the regularity of training and coaching, so some companies have a focus on keeping knowledge up to date, recognising perhaps that competences have a life cycle and need renewing, as suggested by Helfat and Peteraf (2003).

It was the case that respondents who used contractors most, and were successful with them were the clearest in their answers about training. While quantity of training might still have been less than that afforded for employees, there was some investment. There may be some support here for a reinforcing loop between training and success, consistent with the findings of Anderson *et al*. (1987) that companies that invested in training contractors were more attractive customers to the contractors than those who do not.

One interesting finding from this table is that product training usually longer than training about customers. This does not seem to be consistent with respondents' discussions about the criticality of customer knowledge (see below), and their service-led and consultative selling approaches. It begs the question whether companies persistently try to "buy in" customer knowledge when they recruit, or as some purchasing managers anecdotally claim, they expect the customer to train the salesperson.

4.5.7 How do sales managers perceive that customers would identify "the way you sell" as part of their differentiation as a supplier?

It would be logical if the importance that most sales managers in the sample placed on skills were reflected in their confidence that their way of selling would be recognised by their customers as different from competitors. It was interesting to note that three respondents described their channel as their differentiation (in two cases, working through third parties, in one case, selling direct).

Twenty (69%) described a service-driven approach to selling, and saw themselves as offering a superior way of selling based on understanding customer needs and presenting suitable solutions. The way customers are treated, the way the company responds to customers and the way salespeople understand customer needs were considered important, as was giving advice or a consultative approach. For example: "We don't rush to a sale. We focus on customer processes and practices. We start with an analysis of what they do, and how they do things, and give them a choice (at) each stage of the process." (R13).

Given that needs-based selling was identified in the 1980s as best practice (Rackham, 1987) and consultative selling has been with us since 1999 (Rackham & DeVincentis, 1999), this approach ought to have become the norm across all organisations. The fact that respondents felt that it gave them a point of differentiation over the competition indicates that there may still be a lot of mediocre selling going on in the UK, evidenced by the reported skills gap (MSSSB, 2008; CFA, 2012).

4.5.8 Do sales managers perceive that personal relationships between salespeople (whether employees or contractors) and customers have an influence on sales success?

Respondents were prompted to comment on their perceptions of the importance of personal relationship-building in sales success. Some very strong words were used to convey respondents' perceptions that personal relationship-building was important. This is consistent with empirical evidence that personal relationships affect professional purchasers, as observed by Zaheer *et al*. (1998) and Anaza & Rutherford (2011), but it is the strength of feeling that is noticeable:

- "That old adage that people buy people first is very true." R1
- "I think it's key, absolutely key." R4
- "I think that's crucial for us." R5
- "Huge, huge. I'm not going to use the term trusted advisor, because it's overworked, but people still do buy from people, even when there is quite a rigorous procurement process in place." R6
- "I think personal relationships mean everything in our business." R11
- "I have got clients I have been dealing with for fifteen/sixteen years and it helps enormously." R12
- "People still buy from people, it's a very social world." R15
- "It's very, very influential." R18
- "I would say that was very high now. To what degree? A very high degree." R21
- "I'd say it was critical." R22
- "The relationships are essential (to) be able to get access to the customers." R27
- "People like buying from people and I think if you can start to build a relationship with your customer then it certainly helps the sale, it's as simple

as that." R29

Consistent with Peng *et al.* (2006), respondents did not consider it impossible for third parties to have better relationships with customers than they could, for example, where there were company size, territory, or cultural factors in favour of the contract sales organisation. Nevertheless, the desire for long-term relationships with customers was a reason not to outsource selling activities. The fact that employees could provide consistent contact over the long-term was evident even within one company balancing both internal and external sales resources: "The internal people are permanently employed, have been here for years and therefore they are able to generate relationships with potential customers which could easily last for two, three, four, five years before we actually get these companies as clients. That is not possible for an external sales operation to do that because they don't have consistency of staff and the whole management of the campaigns they operate is different." (R8) Long-term relationships with customers have been empirically associated with better firm performance (Kalwani & Narayandas, 1995), although a more recent practitioner study (Dixon & Adamson, 2011) has achieved popularity by questioning the value of relationship building.

Five respondents, while not disagreeing with the idea that personal relationships are part of sales success, pointed out that, at least in some sectors, the focus on the individual salesperson is changing, because there are some "pragmatic" buyers, and there are "arm's length" tendering procedures:

- "If you are speaking to a customer that is typically an analytical or pragmatic customer they would want to just be looking at the numbers and wouldn't really want to enter into much of a conversation...." R3
- "We go through EU procurements - it's probably more difficult to do personality, I would say it's gone down. So ten years ago it would have been 80% now it's probably about 50%." (R9)

As Homburg, Müller & Klarmann (2011) reported, customer orientation in salespeople is not always effective or desired by the customer. Where a personal relationship is preferred, it does not always mean that the salesperson has to be employed by the brand that is bought. One respondent with a large proportion of third party sales resource commented that: “They can speak to a lot more customers in a smaller part of time, so the amount of information they can gather from customers is more than what we would get internally” (R3). Another pointed out that since it is generally smaller customers who are looked after by third parties, there are more to lose: “(The third party) might (have) 70 of them so we lose knowing where all those small customers are” (R4). Sometimes, sales agents have been in territories for a long time and consequently: “They train us about the customers because they're closer to the customers than we are in those areas” (R16). As Palmatier *et al*. (2007) discovered when looking at manufacturer’s representatives in the USA, their customers can be more loyal to the reps than the brands they sell. A third party may have expertise in trust-building with their clients and their client’s customers (Pillai & Sharma, 2003; Perks & Halliday, 2003; Judge & Dooley, 2006).

In the 21st century culture of team selling and corporate ownership of customer information, as one respondent explained: “It shouldn’t be the case that if they disappear... you suddenly haven’t got access to customers anymore...” (R11). However, another commented that: “I think in our industry....the knowledge tends to be with the individual rather than shared across a wider team” (R10). In a recent study it has been observed that the relationship a buyer has with a salesperson directly impacts their relationship with the supplier (Anaza & Rutherford, 2011). Despite indicators of change from respondents, it seems that relationship-building skills are still highly valued, despite their tendency to create dependence.

4.5.9 Do factors about the integration of selling, such as team-based selling and salesperson involvement in non-selling activity, such as post-sales support and problem-solving, play some role in the sales skills portfolio?

Both Anderson's 1985 study and Krafft *et al*.'s 2005 study found that the higher the proportion of non-selling activity, the more likely the sales function would be insourced. Both studies showed strong relationships between non-selling activities and in-house sales. Many respondents reported that their salespeople had considerable involvement in non-selling activities. As one respondent put it "If you (are) selling equipment that should last twenty–five years to customers who are repeat customers in a small market, they don't expect you to disappear after they have signed the contract" (R11).

Contract sales organisations, where they are used, are not immune from a requirement to do some non-selling activities. A significant user of CSOs said: "The customer will be working with you on an on-going basis so whether head-counted or contracted, post-sales follow up is constant" (R27). Although Zoltners *et al*. (2006) argued that contractors cannot do complex sales, extensive users of contract sales resources may find ways of extending their scope.

Although "working relationships with colleagues" was hardly mentioned as a "most missed" when employees leave, respondents seemed to be noting something that was strong in Menguc and Barker's (2005) and Steward *et al*.'s (2010) findings about the significant value of a salesperson's influence with colleagues:

- "People who are on the headcount know how to understand and work and operate within the organisation"; "You need the established team members who have been around, who know the company." R2
- "They know the product intimately and if they work closely with other in-

house resources to ensure they have all the skills and knowledge that they need and back up, I would be very surprised if any external agencies could deliver that level of skill and competency in the same sort of time frame...”; R12

- “It’s quite a technical sale that we’re involved with and if they are internal sales people, they will have access to our engineers and training programme and so on and so forth and over time they will be more skilled than bringing a contractor on board”; R14
- “The internal people have access to the internal knowledge and resources of the wider team fairly easily and I guess they typically will have been longer involved in that area”; R20

Respondents were asked whether their sales activities were team-based. Once again, the more selling is team-based, the more likely it is expected to be that salespeople would be employees (Menguc & Barker, 2005). Most respondents mentioned that their approach to selling was team-based. The team approach was occasionally qualified to indicate that it was most prevalent with key accounts:

- “With...larger accounts we will set up specific account plans involving a much broader subset of the functions within our different teams.” R14
- “Where we get most activity nowadays is from what we call applications, which is a team-sell where we use engineers, project managers and salespeople together.” R13

The majority of respondents reporting team-based selling had fairly low levels of outsourcing. One who did use contractors extensively pointed out that he could use contract staff for specific tasks within a key account team. A case study of team selling by manufacturer’s representatives has occurred in the prior literature (Jackson et al, 1999).

These views are consistent with the evidence that it is a salesperson's relationships within their own organisation that determines their value (Liu & Leach, 2001; Tellefsen & Eyuboglu, 2002; Wilson & Millman, 2003; Menguc & Barker, 2005; Plouffe & Barclay, 2007; Steward *et al*., 2010). It is also consistent with transaction cost views of the need to employ when team selling is part of the job (Anderson, 1985; Krafft *et al*., 2004). In a wider context, the more that success in an activity depends on employee collaboration, the more impetus there is to keep it in-house (Williamson, 1979; Safizadeh *et al*., 2008). It is possible for contractors to be used successfully within selling teams (Jackson *et al*., 1999), but among these respondents, that was a rarity.

4.5.10 Which skills are most important and do they vary between employed salespeople and contractors, especially: selling skills, product knowledge, knowledge of company culture and procedures, knowledge of the customer and working relationships with colleagues?

The transaction cost concept of asset specificity and the resource-based view concept of competency may be very close (Argyres & Zenger, 2007). The idea of something unique to the firm which salespeople need to know was recognised by respondents in this study. The skills sets noted in Anderson's (1985) study as indicators of insourcing (company culture, product knowledge and customer knowledge) were relevant to these sales managers.

4.5.10.1 Company culture

Santos & Eisenhardt (2005) posited that "Who we are" is relevant to "make-or-buy" decisions. A key construct in Anderson's 1985 study of contracting-out sales, which was tested by the most indicators, was the importance of salespeople understanding company culture. This study prompted respondents to talk about the value of employed salespeople (and contractors) understanding company culture. Some respondents felt strongly about the importance of salespeople "buying into a particular culture we have" (R1). Respondents noted that company values were easier to convey via an employed salesperson: "How the company culture is and the message that they are taking to the market, it's easy to instil in the sales person who is working directly for you" (R17); "They would understand the company culture – they're more loyal to the company culture" (R24). Sometimes there is a "chicken and egg" situation. If "it's our company culture to ...employ direct sales people" (R17) - then clearly culture will matter to the salespeople.

The role of a salesperson as brand ambassador (Tanner *et al*., 2008) tends to indicate insourcing is advantageous. Even advocates of wholesale outsourcing argue for things that determine the company's identity to be insourced (Phelan & Lewin, 2000; Sucky, 2007). As one respondent put it: "I would question the ability or the experience of the sales person from the sales agency to be able to... have a feeling for the company culture as much as one of our own sales people would." (R17). Another respondent mentioned negative results from trying to induct contractors into company culture... "A week (training) on the culture, although to an extent how much that would be ingrained is questionable because they see themselves as temporary anyway" (R1), but a regular user of contractors argued it was possible to get contractors to "Want to be an extension of our sales floor and adopt our culture" (R3). This is consistent with empirical findings that salespeople working for an agent or contract sales organisation can develop an affinity with a particular supplier's brand, which increases the effort that they put into that brand (Hughes & Ahearne, 2010).

Significantly, a few respondents perceived an advantage in contract salespeople not being entrenched in company culture: "They don't tend to have the baggage of previous company culture or wanting to keep things the way they are" (R27); "Contract sales team...can....understand what's going out there in the environment and they are not so cocooned in terms of the organisation, so they can bring extra qualities....(they are) a bit more entrepreneurial" (R2). This minority view is consistent with Mahajan *et al*. (1984) who noted that there were advantages in contractors being divorced from organisational climate.

Given that cultural affinity takes time to develop, there is still a risk with employing salespeople, with one advocate of employees noting that some sales recruits only last about a year. As noted by Battu *et al*. (2002), even employees who have developed firm-specific skills can be very mobile. Notably, however, knowledge of company culture was not quoted by any respondent as the skill most missed when an employee leaves, even though it might be an aspect of training that takes a long time to instil and needs constant reinforcement.

4.5.10.2 Product/solution

Unique products are correlated with employed salespeople, according to Anderson (1985), Wilson and Zhang (2002) and Krafft *et al*. (2004). Some of the respondents in this study were specific about this factor in their decision-making. "When it comes to the specifics of our product and our industry then I would certainly expect our own employed people to be superior" (R12); "We are in a very technical environment ....We take the approach of employing (people) who are technically adequate and then training them to be sales people" (R9).

Most comments centred on the asset specificity of skills: "When you have got a dealer he might have to deal with a multitude of products so he can't possibly be as skilled as (dealing with) one and my opinion's really strong on that.." (R4); "Third parties...are usually very keen and enthusiastic, but lacking some of the product knowledge, so we have to train them up in the first instance, but although they are very willing to do new things, they don't necessarily have the ability to do that" (R14). The asset specificity of product knowledge is still relevant in sales resourcing decisions.

Product knowledge was second most important when respondents were prompted for "the skills that are most missed when a salesperson leaves". According to TCE studies, where highly technical products are being sold, it is less likely that sales will be outsourced (Anderson, 1985; Krafft *et al*., 2004) and this theme is also suggested in the resource-based view (Wilson & Zhang, 2002). A number of companies defined themselves as technology companies, in which case technical knowledge is clearly important. Sales managers in services companies also emphasised product knowledge, perhaps because professional and technical services are very specific and sometimes regulated.

4.5.10.3 Customer knowledge and relationships

Another of Anderson's (1985) aspects of "asset specific" skills was knowledge of the customer. This attracted relatively little comment until respondents were asked to comment on the skills that would be missed if employees left or contractors were terminated and eleven (38%) rated it most important (see paragraphs below). This is interesting given the focus in the literature on the increasing importance of salespeople adding value to the customer (Tanner *et al*., 2008) and even the suggestion that sales channel choice should be influenced by the customer (Palmatier *et al*., 2007), since interpersonal trust is important to purchasing decision makers (Zaheer *et al*., 1998). Nevertheless there was some mention of it when they were asked for how they compared the skills of employees and contractors. Consistent with Anderson and Coughlan, (1987) and Peng *et al*. (2006), in markets where the contractor might know the customer better than the brand owner, contractors were valued.

"We are able to employ very high quality sales people, because we can offer them consistency of employment and they can develop relationships with...(customers) over the years, so they in fact do a better job" (R8); "Our people pay off in a relationship management aspect, and their skill-sets and competences are very much around that" (R13). The association of relationship-building with employed salespeople is relevant in this study as it was in Anderson (1984) and Krafft *et al*., (2004).

From the choices "selling skills, product knowledge, working knowledge of the company culture or procedures, knowledge of the customer or working relationships with colleagues", knowledge of the customer was most important to 38% of respondents. It was relevant to note that respondents were generally talking about in-depth knowledge of long-term (probably key) customers: "Key account management is a skill set that's built in-house because it requires buyers' market knowledge" (R15). One respondent, commenting on the nature of his company's success explained (with strong emphasis): "We do that by focusing on long-term relationships. It helps maintain our margin, our market share, it's in line with the model ...within the group, and we find it's been very effective" (R13). Respondents in this sample appeared to agree with Zoltners *et al*. (2006) that contractors cannot handle complex sales or customer relationships. The need for long-term relationships with customers is associated with in-house sales (Anderson & Schmittlein, 1984); the more complex the customers, the more likely that selling activity will be kept in-house (Wilson & Zhang, 2002). As previously noted, this finding is also consistent with the assumptions of the key account management literature (e.g. Mcdonald *et al.,* 1997).

Unprompted, thirteen (45%) respondents also made comments about the value of knowledge of particular industry sectors and markets, e.g. “I have some high need for some deep domain knowledge” (R6) and while many companies develop this in-house, it was a relevant consideration for seeking third parties: “We would look to use contractors that would give us an extra avenue for sales in a given industry, geography or for language capability” (R14). This is consistent with the literature on use of agents in overseas markets (Anderson & Coughlan, 1987; Peng *et al*., 2006) and the resource-based view. Notably, use of contractors for target segments was one context where respondents perceived success.

4.5.10.4 Selling skills

Sales aptitude is an important element of a salesperson’s performance (Walker *et al*., 1977), but it is selling skills that have been identified as most transferable (Kulkarni & Ramamoorthy, 2005). Since contract sales organisation have been described as selling machines (Anderson & Trinkle, 2005) it is predictable that it is here where some respondents note the contract advantage:

- “Lead-gen and the different territories and the lead qualifications. I think contractors tend to be more focused in that area and they tend to have that experience, whereas internal people, that’s definitely an area that they dislike”; R15
- “The kind of bedrock of the sales function in terms of being able to access, negotiate and being able to run good productive sales calls...the outsourced guys are as good as the in-house… I’ve seen it in role play/benchmark scenarios, where the outsourced guys have performed better. It’s that classic, they’re really keen to demonstrate that... they can sell…”; R25
- “A very time-consuming part of what we do is trying to get people to say ‘yes’ to a meeting, because it takes quite a lot of phone calls before they can

get through to people, before you get your chance to secure a meeting, so I think that has been the thing that has appealed to us to an extent about outside contractors... giving them the time consuming task”; R12

- “(A) contract sales organisation probably lives and dies by its results a lot more than we do”. R13

Therefore support for contract sales organisations on the basis of their selling skills can be observed in this study. This is consistent with claims for the selling efficiency of sales agents and the view that it is their focus on selling which is valuable to their clients (Mahajan *et al*., 1984; Novick, 2000; Ross *et al*., 2005; Anderson & Trinkle, 2005). This is important given key works such as Churchill *et al*. (1985) which associate selling skills closely with sales performance.

Contractors attracted some admiration for their focus on selling skills. It was perceived that “They have to have built generic sales skills in order to earn a living” (R10) and therefore “External sales people are probably more skilled in a pure sales sense” (R8) . Users of contractors said: “The contract sales people, I have to say they are generally focused on activity hitting the numbers” (R2).

Practitioner books such as Anderson and Trinkle (2005) and Novick (2000) have mentioned a focus on selling as one advantage of using third parties, and there is some support here from respondents that sales skills are what they expect contractors to do well to the extent that those skills would be missed most if contracts were terminated.

The admiration for contractors’ selling skills was not universal. For sceptical respondents, it was not so much a case of being pro-employee, but anti-contractor. Sometimes this was a case of bitter experience: “The limited times I have used third party sales agencies to do my lead generation/qualification, the results have been very, very poor, based on the lack of experience of their employees” (R18).

Consistent with transaction cost economics (Williamson, 1975) and the finding in the section on control, concerns about “lock-in” and “shirking” were expressed: “In the first place they might give you the best people to work on a particular project, but over time, as ...you change from being a new customer to being an existing customer, sometimes the quality can be dropped off...” (R19).

Contract sales organisations were defended on grounds of some specific contextual skills, some of which explained their value when flexibility is necessary: “ I think in certain environments, the third party would probably be more skilled, because they’ve been exposed to a lot of different companies and different ways of working” (R19); “Contract sales teams are better, or more aligned to the changes (in the customer/s)” (R2); *“*If you suddenly have a merger or acquisition or you go onto new territory or products they (employed salespeople) know nothing about, that maybe a good reason to look externally and try even for an interim period to bring in somebody who knows more about all those areas” (R11).

Gaining access to specific skills in order to generate value is at the heart of the resource-based view (Holcomb & Hitt, 2007), and to do so to facilitate change has resonance with the dynamic capabilities aspect of RBV (Lonsdale, 1999; Helfat &Peteraf, 2003). It is clear from this sample that some sales managers will turn to contractors to accelerate strategy implementation, as advocated by Ansoff (1987), Nooteboom (1993) and Kim and Mauborgne (1997). Flexibility is discussed in more detail in the next section.

It was notable in some industry sectors (pharmaceuticals and finance) that perceptions about the specific skills of contractors were most favourable: “The (third parties) we use are time-served, skilled… at the moment I think there are much more skilled contractors available rather than people available for employment.” (R10); “There are more experienced staff in the market who we contract with” (R24); “If you go back maybe ten years, there was a bit of a quality mark so sometimes the price you have to pay for going with third parties was that the quality was less. I think that over the last 10 years the quality has improved significantly...with third parties...today I think you can get people of the same calibre as in-house staff...There are some people who now work for the contract companies because actually there is more security (with them)" (R27). Clearly in these sectors, the supply market is well-developed enough to have experience and reputation that are valuable to their clients (Mukherji & Ramachandran, 2007; Jaramillo & Grisaffe, 2009). (See also 4.7.2).

4.5.11 Summary of respondents' perceptions of the role of skills in "make-or-buy" decisions

While reinforcing findings from previous literature about the role of skills in deciding sales resourcing types (Anderson, 1985; Tanner *et al.,* 2008), the findings of this study also reflect the weakness of the market for sales skills in the UK (CFA, 2012). They are very important and the availability of them is limited. At the same time, using contract sales organisations to fill gaps is not widespread. The desire for salespeople immersed in the company culture (Tellefsen & Eyuboglu, 2002) and with specific technical knowledge (Wilson & Zhang, 2002) is not surprising in most business-to-business sectors.

Consistent with the findings of Tuli *et al.* (2010), customer knowledge, leading to the development of strong relationships with customers, is important for both employed and contracted salespeople, according to thse respondents. It is contradictory that formal training about customers is limited. Also, although customer information is the property of the company, a lot of customer knowledge seems to be developed by and left with the individual salesperson or contractor. This suggests that more could be done to systematically put customer insight at the heart of sales expertise.

Given the preference for developing the skills of employees over using contractors, another significant finding is that although the literature identifies influence with colleagues as an important rent-generating skill among salespeople (Menguc & Barker, 2005), it is not widely recognised by the sales managers in this study. It is not necessarily picked up, even when discussing team-selling and non-selling activities.

Last but not least, the respondents seemed to be most impressed with the pure selling skills of contract sales organisations, as anticipated by key authors (e.g. Anderson & Trinkle, 2005). It is perhaps an irony that as employed salespeople acquire breadth of skills and knowledge, their sales skills get overshadowed and become what they least want to do. Hence why some respondents were combining contractors and employees in the sales process with a view to getting the best productivity.

Overall, it seems that most respondents took a resource-based view approach to “make-or-buy”, but at a granular level, looking at skills per customer segment or process step, an approach observed by Watjatrakul & Drennan (2005). All the skills/competences noted in previous studies are relevant to their approach to resourcing of the sales function. There is further consideration later in this chapter of the indicators of a skills antecedent for resource decisions.

4.6 Respondents' perceptions of the role of flexibility in resourcing decisions

Proposition 4: The comparative speed and flexibility in deployment of resource options will be an antecedent in "make-or-buy" decisions in the sales function

4.6.1 Introduction

Among the challenges faced by the respondents, there were a significant number of references to the need to change resourcing models, consistent with assumptions made in the literature that changing resource patterns to respond to environmental change is the most important role of strategy (Venkatraman & Prescott, 1990; Noble, 1999; Snow *et al*., 2005; Shimizu & Hitt, 2004). Although not always a priority to the respondents, the issue of resource flexibility was frequently mentioned outside of the prompted questions.

Category of challenge	Number of mentions	Fit to main themes	Typical quotes
Changing resource model	15	Flexibility	“The products we deal with and the marketplace we operate in shifts very quickly. Our competitors are very disruptive in the marketplace, as are we, so you have to react to that very quickly.” R26
			“The whole way that we do things is changing and what will happen is that more of our business will come from internet-based marketing activities.” R8
			“You need to sell this way now, if we’re going to move forward, but we’re cutting back the number of salespeople and giving people extra work to do.” R17
			“Being able to redeploy or reduce a workforce in a country.... where you have works councils, and quite a high degree of regulation... requires a huge amount of cost and effort and time.” R20
			“It’s that culture of dealing with a transactional sale rather than building up a relationship with the customer base is the biggest challenge.” R23

Table 25: Comments on the issue of resource flexibility (1)

Some respondents were also turning to contractors to help with short-term surges in demand, consistent with literature suggesting that volume flexibility positively affects a firm’s competiveness (Jack & Raturi, 2002; Sawhney, 2006), and specifically the view that resourcing options help to build a firm’s capabilities (Ansoff, 1987; Foss, 1998).

Category of challenge	Number of mentions	Fit to main themes	Typical quotes
Growth-related	5	Flexibility	"There's also a challenge of the volume of heads we've required within our telesales teams....we would struggle to get the volume of people in a single area." R26
			"Our challenge was if this takes off the way we anticipate we won't be able to cope…" R25

Table 26: Comments on the issue of resource flexibility (2)

The researcher's previous work on this topic in the pharmaceutical sector (Rogers, 2009) indicated that flexibility was an important antecedent for use of contract sales organisations. Flexibility consists of a number of related factors, including the variabilisation of costs (Stigler, 1939), the ability to change quickly (Golden & Powell, 2000) and the spreading of risk while maximising opportunity realisation, as explained in Sanchez' (1993) real options theory. Flexibility was considered by some respondents in this sample to be their priority in making sales resourcing decisions, but more regarded it as least important.

4.6.2 Do sales managers perceive that employed salespeople, contract sales organisations or a combination of both, give them more flexibility?

Some of the theoretical works on the nature of the firm discuss integration or market organisation as "either/or" decisions. In particular, empirical work testing the transaction cost economics view has examined 100% employed versus 100% contracted-out samples (e.g. Anderson, 1985). Williamson (1991) noted that hybrid forms of organisation are possible. The challenge, in the case of sales, is the multiplicity of choices if the sales function is approached in a granular way as advocated by Watjakrakul and Drennan (2005). Among this limited sample, a great variety of arrangements with third parties have been noted, from extremely short-term to long-term renewable contracts, from small scale (1-5% of activities) to much larger proportions of activities. Usually, just one part of the sales process, a limited number of territories/market segments or a limited number of products are outsourced, which is expected in the literature (Kleeman, 1994; Dutta *et al*., 1995; Gary, 2005; Rogers, 2009; Krishnamurthy *et al*., 2009). Many sales managers supported the desirability of hybridisation, perceiving the ability to optimise the benefits of both in-house and outsourced resources (Fredericks, 2005; King, 2006; Parmigiani, 2007).

When prompted to discuss flexibility, most of the respondents mentioned the desirability of having resourcing choices. As seen above, this was largely to enable experimentation or speedily address new markets:

- "So you might pick a little sub-segment of a segment and have a quick go at that – just to see if your proposition resonates." R6
- "Because we have more options on the table, we can reach out to more customers"; "The more options we have, the more flexibility we have, and the more we are able to move to different industries, different geographies, different languages, the more success we'll have." R14
- "There's a base load of demand that should be, and is best filled using internal resources, but where that requirement flexes over time I think peaks and troughs can be better managed using an out-sourced model." R20
- "Do (we)... have a huge recruitment drive...or do we speak to a partner...who already has that in place..." R21

Apart from the growth angle, there were some generally favourable comments about the advantages of choice:

- "Having the availability of external options to compare with internal options would always be useful in my view." R10
- "Having the option of looking externally gives me greater flexibility." R13
- "We need as many options as possible." R24
- "Be prepared to change from the way you have always done it." R4
- "It is critical to us that we operate with both internal and external teams." R21

One respondent summed up the hybrid advantage:
"I think you need a good mixture of both. Because I think the external gives you the flexibility and the internal is what gives you the company identity." R25
Although accommodated in transaction cost economics (Williamson, 1991), hybrids are assumed to be long-term relationships rather than granular mixes. It appears that the "real options" approach where short-term change in dynamic markets is advocated (Sanchez, 1993), has more resonance with these respondents.

4.6.3 To what degree do sales managers perceive that competitiveness depends on being able to increase or decrease volume of activity without disproportionate increases in costs?

In unprompted comments about the challenges that they faced in their roles, twelve (41%) respondents mentioned changing resource models and five (17%) specifically mentioned the need to ramp up resourcing quickly for new opportunities. These could broadly be interpreted as a need to "flex" sales resources as market conditions change, which is the classic strategic challenge (Noble, 1999; Shimizu & Hitt, 2004). Williamson (1991) argued that adaptability was crucial, but assumed that employment contracts were easier to change than contracts with third parties.

However, the pattern between respondents' descriptions of the market conditions they were dealing with and their pattern of use of third party resources was not consistent.
16 (55%) respondents perceived their current market conditions to be volatile, but very variable levels of outsourcing are observed. From this sample, the view of Krickx (2000) that there is no systematic relationship between demand volatility and degrees of vertical integration seems to be supported. Since 72% of respondents were only partially outsourcing, there may be some indication here that respondents were using "real options" to be nimble to improve competiveness (Sanchez, 1993; Golden & Powell, 2000; Alvarez & Stenbacka, 2007).

4.6.4 How do sales managers perceive the relative contribution of employed salespeople and contractors to speed of change?

4.6.4.1 Employed salespeople and flexibility

When prompted to discuss flexibility, twelve respondents defended employed salespeople's ability to adapt and to improve their productivity, and apparently agreed with Coase (1937) that employees are the most adaptable organisational form. Some mentioned that crisis conditions in the economy had been instrumental in recent evidence of employed salespeople behaving as a flexible resource. Examples given were office moves and accepting pay cuts:

Comments about employee flexibility	Examples
"An employee would be able to accelerate change quicker because (employment is) a much greater commitment." R22	"They have been prepared to change locations and accept restructuring." R1
"...receptive to change...very quickly got on board with the vision and the change was implemented very quickly." "Where you have got the right team they can massively help you to accelerate change." R10	"Bonus plans have significantly altered downwards and people have accepted that." R10
"You can handle it (with a small team) and still control it and fight back spins in the market activity." R11	"There was a pay freeze for about two or three years....appreciating the fact that the market was in such a bad state and the general economy..." R11
"We have quite a high tolerance to change, which does happen quite regularly." R13	"We've had pay freezes in the past, and it's never a pleasant experience but it's been absorbed and taken on board by the sales team." R14
"Employed people are more willing to chip in to enact or accelerate change." R21	"During the downturn, we were able to reduce our sales overheads. We had to shut a couple of our sales offices...move people to other countries." R17
"They buy in to the company." R1	"Pay freezes and pension freezes have been accepted." R12

Table 27: Comments on employee flexibility

Like others in the labour market, salespeople have adjusted to the fall in output in 2008 and 2009 through slower (or negative) earnings growth (ONS 2010/11). One respondent commented, in connection with pay cuts: "You have to question the voluntary nature of it" (R13), but nevertheless, many of the sales managers in this study have experienced co-operation from their employed salespeople when they have had to change the sales operations to adjust to market downturns, or in a few cases, growth. The respondents were career sales directors/managers with a great deal of experience, and therefore there might have been high levels of trust from reporting staff, who would therefore be more willing to accept change (McNeilly & Lawson, 1999; Choi *et al*., 2004).

4.6.4.2 Contractors and flexibility

When discussing general attitudes towards the use of contractors for sales tasks, fourteen (48%) respondents focused on the contribution that they can make to achieving rapid change.

Attitudinal comments about third parties/contractors	Fit to main themes	Typical quotes
Positive	Flexibility	"In terms of flexing themselves round the changes that take place out there... I often find that some of the contract sales teams are better." R2
		"...experience is a positive one, in that working with third parties, contractors, does give us a very quick change anyway." R14
		"They have got a big role to play where either we want to have flexibility or where we cannot justify getting someone on headcount." R27

Table 28: Comments on third parties/contractors' flexibility (1)

Getting something done quickly seems to be a frequent antecedent for the use of carefully pre-selected contract sales organisations. Most respondents had experience of short-term contracting out of particular tasks. Difficulties in acquiring resource to address new opportunities might be a strong incentive to using a third party/contractor. Choice of resourcing options, as advocated in real options theory, can be a way of maximizing opportunity (Sanchez, 1993; Foss, 1998; Anderson T.J., 2000; Sharma & Mehotra, 2007).

There are comments in the study that suggest some admiration for the speed and capability of some contract sales organisations in recruitment and deployment of salespeople. This could be one of their capabilities that a manager of a recently downsized or stable sales function could feel was worth utilising. The increase in marginal productivity is worth having (Stigler, 1939; Scott *et al*., 1988), and the need to adjust very quickly should be covered by resourcing options (Fredericks, 2005).

It should be noted that regular users of contract sale organisations mentioned that they had a few pre-selected suppliers for such campaigns and that they knew there might still be a trade-off in terms of effectiveness.

General comments about third parties/contractors and flexibility	Examples
“You can terminate the external resource much easier than you can make changes to an internal resource...” R12	“A nine or twelve month contract for a particular area... it would be very difficult to do that if it were a headcount position.” “Recently winning a contract and then selecting... a contract sales organisation to fill two territories. The business came in very, very quickly.” R2
“There’s a lot more flexibility (with) the third party, because you can switch the resource on and off a lot quicker, and control the investment to a level which you're more comfortable with.” R22	“An example of that is when we look at recruiting, they can generally do that in a two week period and have them up and ready and speaking to customers, whereas it would take us a couple of months to get people in the door and everything set up.” R3
“One of the main benefits of outsourcing is being able to react and flex in times of uncertainty and volatility.” R25	“If we wanted to run a product campaign to promote an existing or new product, and we could turn that on probably within two weeks using external telemarketing.” R20
“They are typically moving people between campaigns more frequently than we do. Their rotation of staff on both of those counts tends to mean that they are geared up better to accommodate change than we are internally.” R26	“If we have had to react to a particular competitor activity ...we can usually enact or put in place a sales campaign very quickly, within a week in fact.” R21
“Third party sales people are more used to change; they...embrace change and (are) more used to do(ing) as they are told.” R27	

Table 29: Comments on third parties/contractors’ flexibility (2)

A few respondents also commented on the ability of third parties to help them to minimise their financial risk in tough economic times, mentioning similar sacrifices to those offered by employed staff:

- “We changed the payment terms from an upfront schedule...we paid them in arrears." R25

- "I think it's much easier with third parties to get into discussions about variablising their costs, because in lots of cases that's why you are working with them in the first place." R20
- "Some of them have historically not looked at having an increase in payment (with) inflation." R3
- "We have implemented some changes in terms of redressing the balance in terms of us getting more income from the deal than previously we would have done, and they have accepted that." R10

These comments are consistent with observations in the literature; financial risk can be shifted to contractors (Downey, 1995; Whitford & Zeitlein, 2004; Anderson & Trinkle, 2005). This is a key benefit predicted by real options theory, where the risk of addressing an opportunity is minimised by choosing a resource where commitment can be postponed (Anderson, T.J., 2000).

In a number of cases in this sample from different sectors, the need for flexibility still comes across as a reason to use third parties/contractors, and as a deliverable that should be expected. Although sales employees may have been adaptive in economic hard times, respondents seemed to have more experience of resistance to change from their directly reporting staff than resistance to change from contractors.

4.6.5 How do sales managers perceive the relative behaviour of employed salespeople and contractors in obstructing change?

Thirteen (45%) respondents mentioned inhibitors to flexibility with an employed salesforce, consistent with the position of Bonoma (1984), Hambrick and Canella (1989), Colletti and Chonko, (1997), Corner and Rogers (2005) and Sliwka (2007). Most of their comments about the reluctance of employees to embrace change were in response to a question about resistance to change.Typical comments were:

- "We get resistance to change all the time." R3
- "Employed sales people can take a while to adjust." R5
- "In the main people don't like change, and that includes sales people, so that's always a challenge." R6
- "Employed sales people will always resist change." R9
- "Change is a four letter word to most sales people." R15
- "We have struggled with getting the buy in....a fairly stable sales team....don't always see the benefits of changing what they have done in the past." R20
- "They like the status quo." R22
- "People either don't see the need for change or don't think the change applies to them." R27

Besides the human nature aspect of resistance to change, eight (28%) respondents commented on the regulation involved in change. When specifically prompted to compare commercial and employment contracts, during the discussion on control of sales resource, 20(69%) respondents said that they thought commercial contracts were easier to change and 22 (76%) said that they were easier to terminate. Three respondents specifically mentioned some EU countries where the problem is seen to be worse than in the UK as examples. "Being able to redeploy or reduce a workforce in a country such as France or Germany or Holland where you have works councils, and quite a high degree of regulation...requires a huge amount of cost and effort and time" (R20). Krafft *et al*. (2004) also found that EU law negatively affected the way that German sales managers viewed the adaptability of sales employees.

Although responses were more evenly matched on whether employment or commercial contracts were easy to set up, for companies enjoying growth, time factors were an inhibitor to employment. For example: "That's quite a lengthy process, to get a decision made on bringing in new heads" (R26).

Although there were fewer comments about contractors resisting change, respondents who had experience of long-term relationships with third parties mentioned that they could also be "political" (R4, R21). It is the companies who specialise in short-term assistance to clients who seem to be most admired for flexibility, which is consistent with the view in the literature that "out-tasking" is a desirable model (Krishnamurthy *et al*., 2009).

4.6.6 Summary of respondents' perceptions of the role of flexibility in "make-or-buy" decisions

Prioritising flexibility in supplier choice has been observed to have a favourable impact on performance (González-Benito, 2010). Both outsourcing of non-core tasks and internal flexibility are associated with better performance (Martinez-Sánchez *et al*., 2007). Similarly, respondents seem to have coaxed flexibility from employed salespeople and built more flexibility into their resourcing model with tactical use of contract sales organisations. Although recent economic circumstances have meant that employed salespeople have adjusted to change, it is unlikely that these conditions will be sustained indefinitely. Some respondents who did not use contract sales organisations acknowledged the need for options, which suggests that the “real options” approach to resourcing decisions does have resonance among senior practitioners. How a construct of “flexibility” might be measured is discussed at the end of this chapter.

4.7 Moderating factors

Research Objective 2: to explore sales managers’ perceptions of factors moderating their resourcing choices.

4.7.1 Introduction

In line with previous literature, primarily Anderson (1985) and Anderson *et al*. (2003), it was expected that there would be moderating factors in the relationship between independent variables and the dependent variable of propensity to outsource, or as Espíno-Rodriguez and Padrón-Robaina (2004) put it, in between the desire to outsource and outsourcing behaviour. It was expected that sales managers would moderate “make-or-buy” decisions if there were imperfections in the supply market, if there were industry “norms” which it would be risky to ignore, or if there were limited skills within the company to manage the outsourced resources.

Proposition 5: The availability of suitable suppliers will be a moderating factor in “make-or-buy” in the sales function

4.7.2 How do sales managers perceive the supply market for recruiting salespeople, compared to the availability of contract sales organisations/sales agents?

Lonsdale (1999) argued against outsourcing into a market with few suppliers, and Anderson (1985) suggested that some sales outsourcing decisions were influenced by the availability of suitable manufacturers' representatives. It was therefore relevant to ascertain what respondents knew about the availability of contract sales organisations, agents or equivalent services. Respondents were prompted to comment on how easy it was to find contractors, and also how many companies they could name.

Six (21%) respondents said that they had never been approached by an organisation offering contract sales and/or they could not name any; five (17%) made negative comments about availability or choice. Sixteen (55%) respondents commented favourably about the availability of contract sales suppliers or similar options. There was some contextual detail worth noting, such as two commenting that quantity was not a problem, but quality of supply was a problem. Both the availability of suppliers (Ventovuori, 2006) and quality of suppliers (Espíno-Rodriguez & Padrón-Robaina, 2004) is relevant to propensity to outsource.

Although an increase in number of contract organisations was noted, the nature of supply is still considered flawed in most sectors, as most suppliers are very small and do not have the scope to help larger firms. However, there were a few very positive comments about available contractors, in particular three respondents praising the speed with which contractor organisations deployed staff on their projects.

19 (66%) respondents said that they could name at least one third party sales organisation that they were using or would be willing to use. Among the other ten, some respondents were a bit defensive about the prompt, commenting that they knew of suppliers but would not name them; others mentioned having notes about potential suppliers, but not remembering their names. Only two respondents said that they were aware of more than five suppliers (organisations) that they had used or would be willing to use. One respondent referred to a large number of individuals (freelancers) that were available in his sector.

Although respondents seemed to suggest that the availability of contractors was at least as good if not better than the availability of candidates for permanent positions, the supply market in some sectors still seems weak and underdeveloped compared to the financial and pharmaceutical sectors. In pharmaceuticals, where there are some sophisticated multinational contract sales organisations as well as small suppliers; the resilience of larger suppliers enables the possibility of them partnering with large customers to manage sales resource fluctuations (Rogers, 2009).

4.7.2.1 Supply market problems in recruitment

The market for contract sales organisations might be weak in most sectors, but the market for permanent employees is also perceived to be imperfect, which is something rarely discussed as a factor in the outsourcing literature. Sixteen (55%) respondents mentioned difficulties finding candidates for permanent positions. The reasons for difficulty were varied, including geographical constraints (the size of job market in particular localities), the quality of candidates available, the constraint of needing industry-specific knowledge and the pay expectations of candidates. Only two respondents commented that things were easier now compared to before the financial crisis (October 2008).

Regardless of market conditions, eleven (38%) respondents commented about the amount of management effort involved in recruitment. Typical comments included: “There’s a lot of my time and management team’s time goes into making sure we’re getting the right people” (R7); “I think matching and recruiting current staff is extremely time consuming” (R12); “You've got to go through a much more detailed interview process, selection process” (R22); “Recruiting is hard work and very time intensive” (R27). One respondent broke down the effort involved: “That's quite a lengthy process - to get a decision made on bringing in new (salespeople)... (The) internal recruitment process after that is quite slow...and then it's quite a disruptive activity...to go through that interview process, to go through that training, induction...” (R26).

Although it is by no means universally challenging, elsewhere in the interview twelve respondents reported access to skills as their biggest challenge, with comments such as “It’s been more difficult to get the right calibre of salesperson...than I have ever experienced before. It’s been high volume in the market place, but low quality” (R7). Availability of suitable sales staff may not be particularly better than access to suitable contractors. Arguably, there is just a poor market for sales skills. The severe sales skill gap in the UK noted by the Marketing and Sales Standards Setting Body in 2008 and may have eased to some degree as a result of the recession, but some symptoms persist (CFA, 2012). Insourcing from a limited supply market (quality and quantity) may be just as problematic as out-sourcing into a limited supply market.

4.7.3 How do sales managers perceive the implications of becoming dependent on particular employees or contractors?

As described in transaction cost economics, regardless of contract terms it is possible for an organisation to become dependent on a supplier such as a contract sales organisation. It has been noted in the literature that a buyer of services would wish to avoid "lock-in" or opportunities for the third party to "shirk" ("moral hazard") as assumed by transaction cost theory (Bahli & Rivard, 2003; Wathne & Heide, 2000). It has also been argued from the resource-based view that avoiding dependency on external firms leads to better results (Lonsdale, 1999). All respondents were asked to express their feelings about potential dependencies, and the answers were broadly consistent with transaction cost economics theory. Nine (31%) respondents made comments about wishing to avoid "lock-in", expecting that third parties would increase prices or change contract terms in their favour if that occurred. Typical comments included: "They'd have you over a barrel" (R8); "You become unable to control your own destiny" (R9); "The tail wags the dog, eventually" (R13).

Although a minority view, one respondent in a long-term arrangement pointed out that the dependency can cut both ways. His organisation and its partner selling into different market segments were interdependent, so neither would be likely to try to upset the balance in the relationship. Inter-organisational trust is possible, as observed by Zaheer *et al*. (1998) and Judge and Dooley (2006). Williamson (1991) would have categorised this example as a hybrid organisational form with relational governance. Such forms are not excluded by transaction cost economics (Williamson, 1996).

The other angle, which also attracted significant comment, was the possibility of the third party switching to competitors, taking resource away from the contract and losing customers for the client or undermining something like pricing strategy in pursuit of their own short-term interests. Some of these problems are more acute with dealer/reseller channels rather than contract sales organisations. Five respondents gave specific examples of "moral hazard" style problems they had experienced with third parties. Mantel *et al*. (2006) observed that perceptions of vulnerability are more influential in sourcing decisions than the desire to access third parties' capabilities.

Does this make contractors much more risky than sales employees? Hart and Moore (1990) commented that you can sack an individual but it is more difficult to sack a whole company. The respondents' attitude to employment law suggests that there is already a type of quasi "lock-in" with employees because it is not that easy to sack an individual in the UK in the early 21st century (Moules, 2008). Seventeen (59%) respondents commented on the impact of dependency on particular sales performers. The feeling about dependency on sales employees does not sound much different from the expressions used to describe dependency on contract sales organisations: "Being held to ransom" (R4), "Stuffed" (R7) and "Quite dangerous" (R16). As Battu *et al*. (2002) noted, it is difficult for employers to challenge employees who might be difficult to replace.

It would not come as any surprise to practitioners that eleven (37%) respondents commented about the risk of salespeople leaving to join competitors and that causing disruption to customer relationships, if not the loss of them. Nine commented about their fear of losing sales volume and two expressed concern about loss of knowledge and the amount of time it takes to re-fill knowledge gaps. Salespeople who gain ownership of knowledge may be over-rewarded, consistent with Coff's (1999) views about employees appropriating "rent". If salespeople act like agents, even though they are employed, the hazards of an external contract are not resolved (James, 2000).

Respondents explained their approach to managing the risk of dependency on employees. Nine respondents (31%) were specific about their succession, transition or contingency plans which involved job rotation; development of junior staff; account teams and personal motivation. Two mentioned that the use of a mix of employees and contractors avoided a dependency on either.

Perhaps as a result of the tough economic times recently, no respondents mentioned specifically bad behaviour by salespeople as described by Jelinek and Ahearne (2006).
Indeed, there was widespread faith in employees' ability to identify with their employer and to become a "stakeholder" in the business. As observed by Wieseke *et al*., (2009), there was a perception that identification with their employer would be associated with better sales performance.

On the whole, however, the supply markets for contract sales resource and employed sales resource are both imperfect. The risk of dependency exists when negotiating in either market. These conditions should be taken into account when making resourcing decisions.

Proposition 6: The ability to manage resource options will be a moderating factor in "make-or-buy" in the sales function

4.7.4 What do sales managers perceive to be the implications for their skills in managing employees versus contractors (or vice versa)?

Respondents were prompted to comment on differences between the activities involved in managing employed salespeople versus contractors. This topic generated both quantity and quality of discussion, with respondents holding some clearly emotive views about the nature of their job as coaches and leaders. Anderson noted in her 1985 article that sales managers might have concerns about working arrangements with third parties, and this concern was found in this sample. A number of studies have identified that managing outsourcing is a particular capability, and without it, outsourcing is unlikely to succeed (Kakabadse & Kakabadse, 2002a; Leiblein & Miller, 2003; Thorpe & Morgan, 2007).

As has been already discussed, eighteen (62%) respondents thought that employed salespeople were easier to control than contract sales organisations. “An employed sales person who is given appropriate purpose and direction and is motivated will do what you want them to” (R6). One respondent was more direct: “If you have internal resource and then of course you can ask them to change whatever they are doing at any point in time ...basically it’s their job to do it” (R11). With employees: “The chain of command is much shorter and clearer” (R20). These views are supportive of a key assumption within transaction cost economics that insourcing offers the best environment for adaptability (Williamson, 1991). Nevertheless, 21st century sales management is a far cry from the master-servant assumptions of Coase’s original 1937 article.

Respondents explained the challenges involved in motivating salespeople to achieve targets: “Maintaining the morale and keeping people motivated... I would think was the most difficult part” (R1); “Internal sales people are much more difficult to manage and motivate” (R8) and “We have struggled with getting the buy-in” (R20). One noted the frustration of motivation when external factors are difficult: “Fluctuations in demand ... really caused me my greatest problems around motivation, morale and changes” (R28). Another noted internal difficulties: “I would also say that the bonus structure can cause difficulties, in that it can send people off or motivated in the wrong direction” (R21). (Sales managers are not always empowered to adapt the remuneration of their reporting staff.) Bonoma (1984) noted how sales effort can be diffused, and problems such as bonus systems that send contradictory messages are still present. These findings seem to support the prediction that when circumstances make motivation difficult, there is an increased likelihood of insourcing in sales (Anderson, 1985; Krafft *et al*., 2004),

Although motivation was clearly a challenge for a significant minority of respondents, systematic infrastructures for dealing with people management were helpful to most, consistent with Mahajan *et al*. (1984) who observed that employed salespeople like high levels of structure. One respondent explained: “We don’t define the best sales person as the person who has generated the most sales, we create a matrix of different KPIs, with a different weighting” (R3) and “We have much more understanding of what they’re doing and what we expect them to do, and we (have) the systems in place to do things about it; motivators and how people are rewarded and what they're looking for out of their career path rather than just job performance - with an employee you can help manage that, and give them directions, give them some indication of where the 'jam tomorrow' is coming from” (R13). The long-term approach to motivating employees is expected to reduce the risk of them behaving opportunistically (Rindfleisch & Heide, 1997).

Direct control and system support implies speedy responsiveness to managers’ requirements. Nevertheless, the amount of time spent in monitoring behaviour and performance, and improving it through coaching and development, are not trivial. Just as companies do not often have accurate measures of the real transaction costs of dealing with third parties, Anderson (1985) argued that the hidden costs of internal operations are difficult to measure. As observed by McNeilly and Lawson (1999) and Choi *et al*. (2004),
sales managers have to work very hard with salespeople to establish trust.

- “I will spend time out on the road with them...visiting customers and getting a feel for them, and how they are presenting in front of the customers and then also looking at the opportunities they're generating and whether or not they're bringing in the level they need to." R19

- "We'll make sure a number of calls are listened to, depending on the sort of activities they are doing, a certain ratio of calls will be listened to and monitored and make sure continual coaching is going ahead." R3
- "It's a high level of effort and commitment from the management, first-in-line, second-in-line managers in sales who look after their salespeople." R13

The nature of the tasks involved in operational management of contractors is similar in some ways, but some respondents noticed: "The relationship is much more commercial, it's much more contractual" (R8). Although there are a number of empirical studies examining the advantages of co-operative approaches to relationships between organisations in supply chains (Dyer & Singh, 1998; Zaheer *et al*., 1998; Brown *et al*., 2000; Jap &Anderson, 2003; Judge & Dooley, 2006; Handley & Benton, 2009), most of the respondents in this study had experience only of short-term arrangements that were focused on contract performance.

Monitoring and measurement can be integrated with long-term partners, ("We try to encourage them to use the same kind of process as with our internal staff so that we can benchmark it" R3) or where there is an independent quality assurance mechanism, such as "detail follow-ups" in the pharmaceuticals sector. In the cases where longer-term arrangements were in place, relational management was still underpinned by detailed performance metrics, consistent with the findings of Barthélemy and Quélin (2006). Well-developed processes reduce the potential for performance problems (Conklin, 2005; Mayer & Salomon, 2006).

In most sectors, contracts with CSOs are based on performance: "It's based on risk and reward; you would expect that that third party would be looking to deliver the best possible results because obviously the better they perform the more money they take… if they are not performing then they take a proportion of that risk" (R3).

However, respondents still observed the moral hazard of shirking: “Some of these contractors are very clever generally in leaving open ends…you agree things in a contract which is for everyone to follow but once business comes in, then they start saying that wasn’t in the spirit of what we were talking about” (R11). The main frustration noted when discussing the management of contract sales organisations, was lack of direct control of salespeople. As noted by Frazier & Summers (1984) and Mehta *et al*. (2002), sales channel firms are independent organisations and there may well be disagreements.

As one respondent explained: “You don’t necessarily have first person contact with the front line staff; you are building a relationship with their management structure” (R3), and put another way: “You might have to go through another couple of layers of management and communication before it (a requirement) goes to the salesforce” (R25). Consequently, “If you (are) managing contractors then you need to be much better at managing through others” (R27). For some, that meant: “Trying to exert the control over third parties, depending on the relationship, and how it’s set up, can be much more difficult and less transparent” (R20). As noted in the literature, managing third party sales channels is a specific skill, different from standard supplier management (Magrath & Hardy, 1987; Friedman & Furey, 1999; Novick, 2000; McQuiston, 2001). A lack of capability is likely to lead to problems (Alexander & Young, 1996; Cox *et al*., 2004; Ngwenyama & Sullivan, 2007).

Concern about managing third parties was apparent:

- “Quite often they're small companies, and they will do what suits them”; “It represents an additional challenge to actually control a third party company, and it's hard to define that, but I see that as a risk, quite a key risk.” R16
- “I wouldn’t have direct influence over their sales floor, only in terms of guidance and opinion.” R17
- “It’s obviously more difficult to keep an eye on everything that’s going on.”

R3

- “There (are) less immediate consequences for a lack of direction or a lack of activity.” R14
- “I think some of the more complex (requirements) sometimes require more effort than perhaps is worth doing – it normally ends up falling back with us.” R5

There is an indication here of strong opposition to third parties on the grounds of diluted control, which is consistent with transaction cost economics (Williamson, 1975), and a perception that managing third parties is a different and difficult skill set, as observed by Fan (2000).

Consistent with Handley and Benton’s (2009) findings, where good relationship management had been achieved, there was support for contract sales organisations reducing transaction costs and risks, such as saving time for sales managers: “If you’ve got good partners externally and they run a tight ship, it can be very easy; it can be a very smooth process” (R26) and “We currently work with around a hundred different (third parties) across the country, and we couldn’t manage a hundred sales people” (R10). Nevertheless, monitoring and motivation was still perceived to be an issue, and advocates of contract sales organisations mentioned that listening in on calls and seeking customer feedback was still necessary. The consequences of following up on it with an individual, however, would be devolved.

4.7.4.1 Sales managers' job satisfaction

Although Guenzi and Troilo (2007) found that the quality of sales management was more important than the type of salesforce in delivering customer value, this study suggests that different types of salesforce require different management competences. From a theoretical point of view, the characteristics of good relational management outlined by Mayo *et al*. (1998), including appropriate rewards, training, and information exchange, do not sound so different from the characteristics of good management of salespeople. However, the difference between working with individuals, and working with other firms, mattered to many respondents.

There is a noted correlation between experience and success in the literature (Díez-Vial, 2007), and with the respondents who were as happy managing contract sales organisations as managing employed salespeople. One commented: "When I first came into management I felt it was very difficult to control contract organisations, but having more experience it's just as easy really" (R2). There were some reservations: "You have to have a lot of patience dealing with a third party.... more than you do with your own people" (R4); "It's a bit more of a dark art than traditional line management" (R25). It was noticeable that some companies employed different people to manage contractors:

- "We always have to employ a resource to manage a relationship with a contract sales organisation as well, which is always an additional cost." "We know that a Field Sales Manager or an Area Sales Manager above them aren't the right people to manage a contract sales organisation, because they come at it from two different philosophies and approaches." R13
- "We have a team of people set up to manage our external contractors." R26

Larger companies can afford to appoint specialised channel managers/agent managers to ensure that the unique competence needed is developed and applied in order to realise the potential benefits (Katsikea & Morgan, 2003).

One sales manager summed up his feelings about the different skills needed to manage third parties: “If our sales force in Europe got replaced with an outside sales agency then I would feel that I was more of a supply manager rather than a sales manager” (R17).

There is an implication in many of the comments about sales managers’ “control” of employed salespeople that their job satisfaction is at least in part associated with leading and motivating other people. One respondent said: “I have always seen my role as a sales leader to be deployed as a coach” 9R6). Another explained: “Looking to improve people’s performance and develop them as individuals...that’s very key to managing an employed sales force” (R10).

Anderson *et al*. (2003) suggested that one of the reasons for limited outsourcing of sales activities was the power that sales managers hold in organisations. An alternative possibility emerging from this research is that there is a reverse psychological contract at work – the sales manager feels a bond to his/her reporting staff and enjoys managing their development, something which does not appear to have been explored in previous literature.

Proposition 7: The perceived "legitimacy" of resourcing options will be a moderating factor in "make-or-buy" in the sales function

4.7.5 Do sales managers perceive that it is important to conform to the norm for their industry/supply chain in terms of how much they use employed salespeople versus contractors?

21 (72%) respondents said that they were not influenced by industry norms. Indeed, some respondents were scathing about the suggestion that they would conform to an industry norm:

- "I don't give a *** to industry norms." R7
- "I don't think we care about what the norm is." R15
- "It's not important at all; we make our own way and do what's best for us." R18

Overall, it appears that the sales managers in this sample believe that they would not moderate their outsourcing behaviour for the sake of industry norms, which contradicts DiMaggio & Powell (1983) and Barreto & Baden-Fuller (2006). It seems unusual to find a collection of respondents so strongly opposed to behaviour observed in the literature, but when the expected norms of customers were discussed, the findings of Weiss *et al*. (1999) are supported – where it is perceived that highly reputable firms use in-house sales, in-house sales will be preferred. Therefore legitimacy does appear to be playing a role.

4.7.6 Do sales managers perceive that their company's reputation in the industry influences their use of employees versus contractors?

19 (66%) respondents held the view that reputation was an important influence on "make-or-buy" decisions. In most cases, these were respondents with a preference for employees:

- "Having employees you've got a better chance of protecting brand and reputation." R7
- "Clients have always recognised us for having really good quality staff." R12
- "Our clients would be looking for us so they would expect the (company name) card-carrying person rather than an external person." R15
-

Some explained their rationale in more detail:

- "Our position within our marketplace is of an expensive product also a high quality product... if we change… to contractors...then I would imagine that will be perceived negatively by our customer base." R17
- "The nature of the multi-year contract means that you need a more stable employee base with that experience and knowledge within the business, I think. And I think our customers would want and expect that, and make that part of the procurement activity, in fact, to know how long people have been around, what they've worked on..." R22

Companies want their brand to mean more to the customer than their relationship with the salesperson (Andreassen & Lanseng, 1997; Lamminmaki, 2005; Jeng, 2008) but having the salesperson as brand ambassador who closely identifies with the firm is regarded as desirable (Tanner *et al*., 2008; Wieseke *et al*., 2009). The risk of loss of control of the customer interface is recognised, consistent with Le Bon and Hughes (2009).

Users of contractors were not always deterred by reputational factors, but knew that they had to be pro-actively managed:

- “We don’t want to see that our company reputation is *ed by using contractors.... we have a team that works solely on the NPS (net promoter score) score of customers through their whole journey and if we ever felt that that NPS score was going down due to it being a contractor we would look at how to resolve that.” R3

Overall, it seems that respondents would moderate resourcing behaviour in order to avoid customer concern. Two specifically mentioned that they believed that their customers set the norm. For example: “If our customers found out that we were using a higher degree of contract resource than others, I just sort-of get the sense that they … would think of our offering as "We have less confidence in it".” R22

Although the literature on reputational comparisons of in-house and outsourced salespeople is rather limited, this comment is consistent with the conclusion of Palmatier *et al*. (2007) that sales channel choice should be influenced by customers. Although this respondent is expressing perceptions rather than anything reported by customers, that perception would obviously limit his use of contractors.

There seems to be a fairly clear message here, that while sales managers are probably not concerned about what competitors do *vis á vis* sales resourcing, they are concerned about customer expectations, and protecting the company’s reputation in the way that selling is done. However, there was little indication that perceptions of success in customer advocacy, which might be considered an indicator of reputational capital, were associated with a lower degree of outsourcing. Respondents were confident about their success with customers, regardless of outsourcing pattern, which means that outsourcers had confidence in their control mechanisms, as expected by studies of relational governance (Mohr & Spekman, 1996; Brock Smith & Barclay, 1997; Judge & Dooley, 2006).

4.7.7 Do sales managers perceive any differences between employed salespeople and contractors in the observance of their business conduct guidelines or ethical code?

A very specific moral hazard for companies using third parties to work with their customers is whether or not they can influence the ethical behaviour of indirect salespeople. Twelve comments were made expressing concern that a third party might be less motivated to observe an ethical code. Five respondents gave specific examples of contractors' staff failing to observe ethical codes. At the direct interface with the customer, supplier opportunism has widespread implications (Weiss & Anderson, 1992).

Although some industries are highly regulated, such as pharmaceuticals and financial services, in other sectors there is no formal standard that is compulsory for all salespeople. There are general business codes (such as the Caux Round Table) and individual companies have robust codes which form part of their sales training for both employees and contractors. In follow up to the interviews, one respondent emailed the researcher to mention the problem of reward mechanisms not lining up with desired behaviour towards customers. Novick (2000), Anderson and Trinkle (2005) and Mukherji and Ramachandran (2007) all argue that contractors have their own reputation to consider. In the UK, contract sales organisations are not as geographically limited as manufacturers' representatives in the US, and many are predominantly telesales operations operating on short-term contracts. In this context, reputational capital may not be so precious.

Reputational risk is likely to moderate the production costs advantages expected in buying rather than making. It is also likely to shut off the outsourcing option when the intention is to acquire new skills or difficult to develop skills (such as selling skills) or where the antecedent is the desire to achieve financial or operational flexibility. The desire for control that sales managers often expressed, and which is considered a key inhibitor to outsourcing by Anderson *et al*., 2003, may be motivated by the visibility of sales resourcing choices to customers. Respondents did express concern about customers not perceiving sales outsourcing in a good light, and would make resourcing decisions in line with customer preferences, as predicted by Weiss *et al.* (1999) and Palmatier *et al.* (2007).

Customers have a big stake in how the interface with them is resourced, and while sales managers have few concerns about how competitors do things, they are concerned about the perceptions of customers and the company's reputation with customers, as predicted by Weiss *et al*. (1999). The mimetic isomorphism of DiMaggio & Powell (1983) was rejected by respondents as a moderating factor, but clearly reputational risk did prompt thoughtful discussion, and seemed to be a foundation for concerns about control and a preference for employment.

The discussion of reputational risk seemed to be strongly linked and associated with the preference for behavioural control. Respondents wished to avoid the contractual hazards (Mayer & Salomon, 2006) and vulnerability (Mantel et al, 2006) predicted by transaction cost economics (Williamson, 1975; 1985). Rather than a moderating factor in its own right, reputational risk may be the principle at the core of control as a construct in "make-or-buy" decisions about the sales function.

4.7.8 Summary of findings about moderating factors

Developing the necessary skills to manage contractors may not appeal to sales managers. There is recognition that different skills are required to be successful with contractors, so if the company does not have them or the incumbent sales manager prefers the direct coaching relationship with employees, outsourcing is not going to happen. The availability of suitable suppliers is also an issue, although it has to be considered alongside the difficulty of finding suitable employees. Unfortunately, in the UK market for sales resources where both the availability of contract sales organisations and the availability of skilled salespeople are seen to be constrained, sales managers are more likely to manage existing dependencies than risk disruption. This seems to be consistent with Anderson's (1988) findings that conformity is more efficient in an uncertain environment, but it is inconsistent with the view that business models should change when the business environment changes (Snow *et al.,* 2005).

Legitimacy did matter to respondents, but they were apparently not concerned by the type of expectations that might come from the stock market, regulators and the media, as described by Deephouse (1996) and Kock (2005). Respondents appeared to be much more concerned about legitimacy driven by customer expectations, in line with Weiss *et al.* (1999). Once reputational risk was discussed and analysed, its relationship with the desire for behavioural control became apparent.

4.8 Findings concerning perceptions of performance

4.8.1 Areas of better and worse performance

Most respondents reported their performance to be better than competitors on most of the factors of successful sales organisations identified by Colletti and Chonko (1997). These sales managers regarded themselves as high performers on: customer retention (83%); share of wallet i.e. having a greater share of customers' category spend (76%); customer advocacy (69%); control of sales overheads (66%); salesperson retention (62%); responding to change (59%); and winning new business (59%).

On some other factors of high performing sales functions, there was more variation among the respondents. For product launches, 55% of respondents rated themselves as about the same or worse than competitors; 55% also described themselves as about the same or worse than competitors on revenue growth. Meer (2005) argued that top quartile performers in industry sectors are associated with above average organic growth, but in a recession, it would not be unsurprising to find concerns.

There were some concerns about sales productivity, with 52% of respondents describing themselves as about the same or worse than competitors. Notably 45% of respondents described themselves as about the same or worse than competitors at utilising third parties, while 31%, those reporting advantages from using third parties, said that they were better than competitors on this factor. This is consistent with the literature suggesting a relationship between experience managing third parties and success (Frazier & Summers, 1984; Díez-Vial, 2007). The remaining 24% remarked that they did not have enough experience to be able to comment.

There are some areas of ambiguity here. For example, to be good at controlling sales overheads but not so confident about sales productivity might initially seem confusing. However, several respondents described market conditions in which considerably more effort was needed to achieve sales. Therefore, even with redundancies and rigorous cost control, sales productivity was perceived to be an industry-wide challenge.

Similarly, why should revenue growth be a factor where less success is perceived, when winning new business was not? Economic conditions might also provide the answer to this. Companies have clearly focused more on customer retention and defending their share of those customers' category spends, as would be expected in a recession. However, they are probably defending their share of a declining spend, and the acquisition of new customers has not necessarily made up for that, resulting in concerns about revenue growth. Users of contractors were more confident about revenue growth and winning new business. Given that organic growth and the leveraging of external resources to achieve it are key indicators of company health (Kazanjian *et al.*, 2006), there is some limited evidence here that the respondents using contractors were being more proactive about addressing the challenges posed by the recession.

4.8.2 The relationship between outsourcing and performance

It was very difficult to discern any differential patterns of performance among this sample. 83% of the companies in the sample were in the top ten if not the top two in their industry sub-sector, and respondents were confident about their organisation's performance on most of Colletti and Chonko's (1997) criteria.

The possible exception was that those companies making extensive use of contractors, and confident about their performance in using contractors, were also very confident about their success in revenue growth and winning new business, which is very important to shareholder value (Favaro *et al.,* 2012). Arguably, the use of contractors for lead generation and addressing target segments seems to work for those respondents who have committed to it. Equally, cost leaders using contractors to reduce costs report success in doing so. There is very little in the sales managers' ratings of their relative strengths and weaknesses to give a clear picture of the effect of resourcing preferences on performance, other than that benefits that are planned from the use of contractors appear to be realised where sales managers believe that they are better than competitors at managing third parties.

Whilst this study cannot make any contribution to understanding the connection between resourcing models and real performance, the limited data gathered on performance supports Proposition 6 and the literature that predicts that the ability to manage third parties is a factor in success in realising the benefits of outsourcing (Kakabadse & Kakabadse, 2002a; Leiblein & Miller, 2003; Daugherty *et al.,* 2006). Desirable outcomes from the use of contractors do appear to be associated with perceptions of superior skills in managing them to successful outcomes.

4.9 Summary of findings

The discussion of sales manager's priorities when making resourcing decisions gave the first indication that control might not be an antecedent. Skills were dominant, followed by cost and flexibility. Therefore, a picture soon emerged during the analysis of three dominant antecedents, each associated with a particular school of thought, transaction cost economics, resource-based view and real options theory:

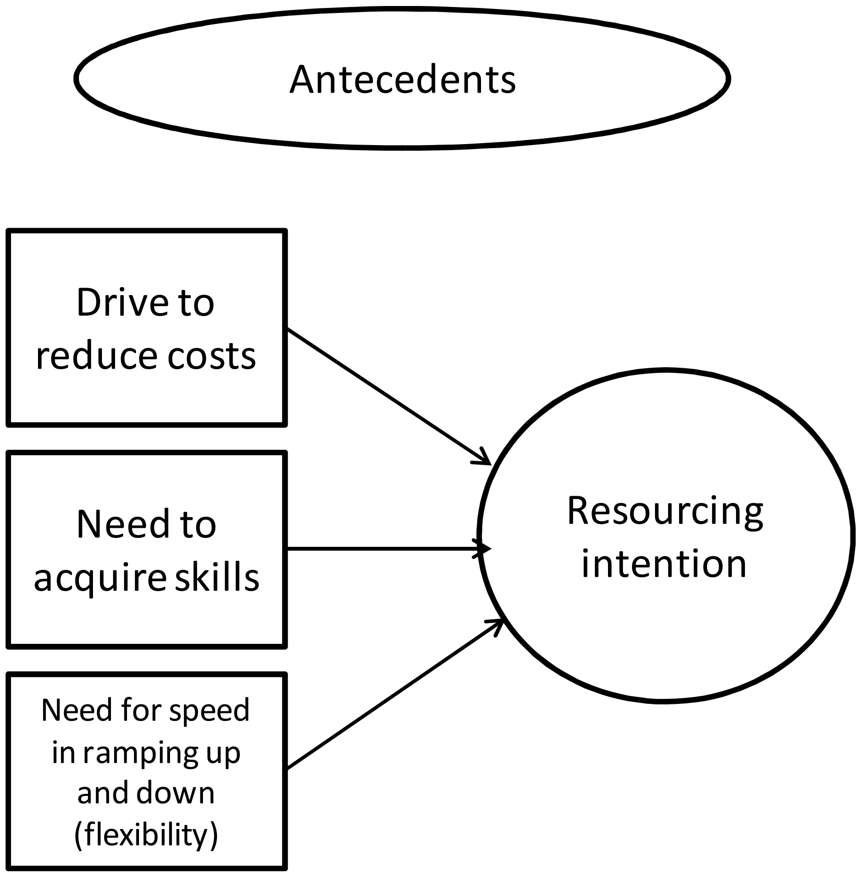

Figure 6: Three dominant antecedents

Control was not a priority, which was the first indication that it might be playing a somewhat different role in the resource decision-making process.

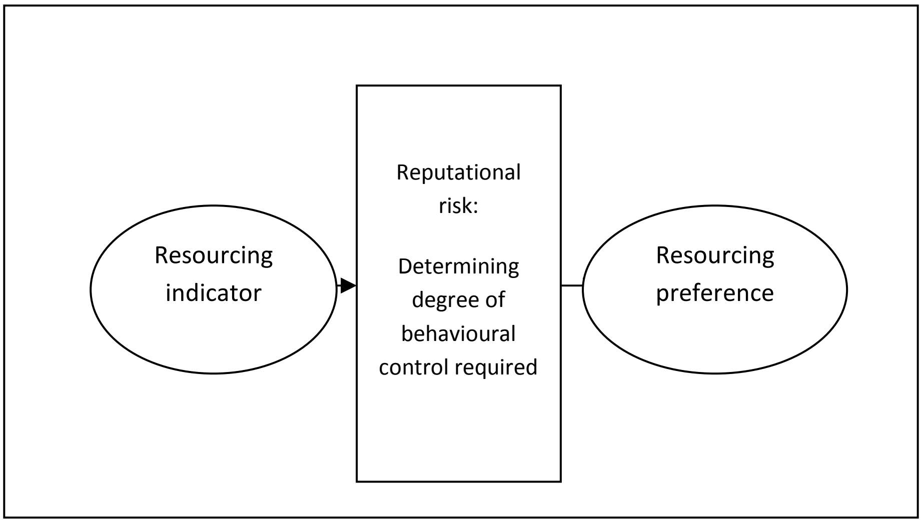

Figure 7: Reputational Risk

The concern with behavioural control noted in the literature suggests that the desire to control sales resources, be they employees or contractors, is prompted by something more than observance of contract terms. Where reputable contract sales organisations have been managed well, it appears that contract terms have been met. It is qualitative aspects of performance that are the most difficult to measure. Respondents were prompted to talk specifically about ethical behaviour. In a separate section, respondents were prompted to discuss their attitudes to industry norms and their reputation with customers, and a link between the two themes emerged. It is therefore proposed that the degree of behavioural control required, which might be measured by perceptions of reputational risk, is a primary moderating factor in the “make-or-buy” decision. However, other moderating factors emerging from the literature are also relevant.

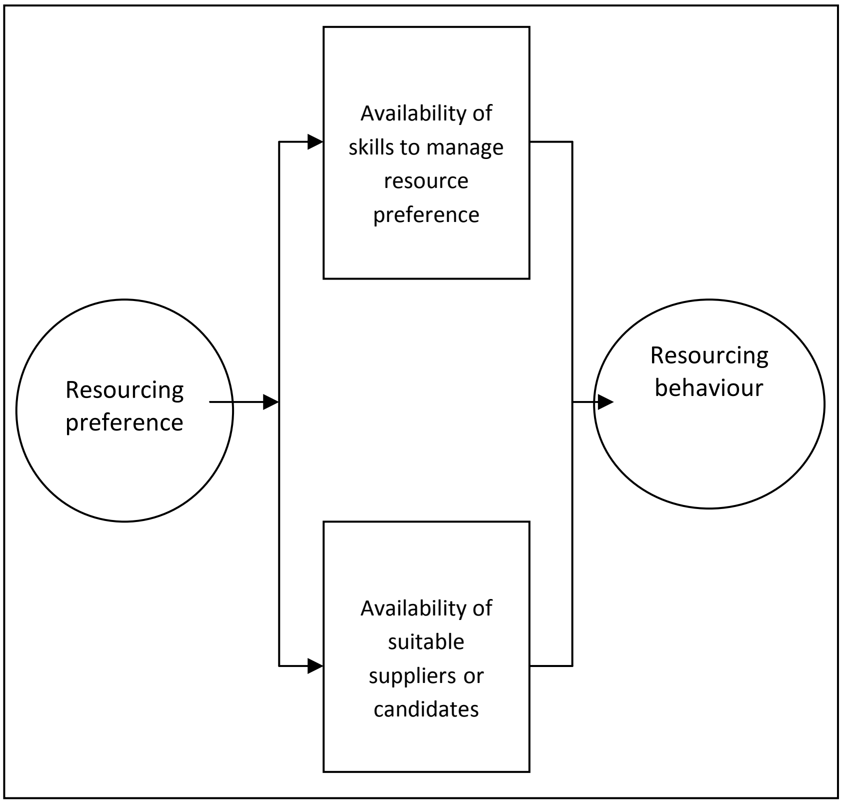

Figure 8: Moderating Factors

Both the ability to manage outsourcing, which seemed to be associated with expectations of good performance from outsourcing, and perceptions about the supply market for both contract sales organisations and direct recruits, were relevant to respondents.

4.9.1 A conceptual model

The model below (see Appendix G) was circulated to all respondents for consideration:

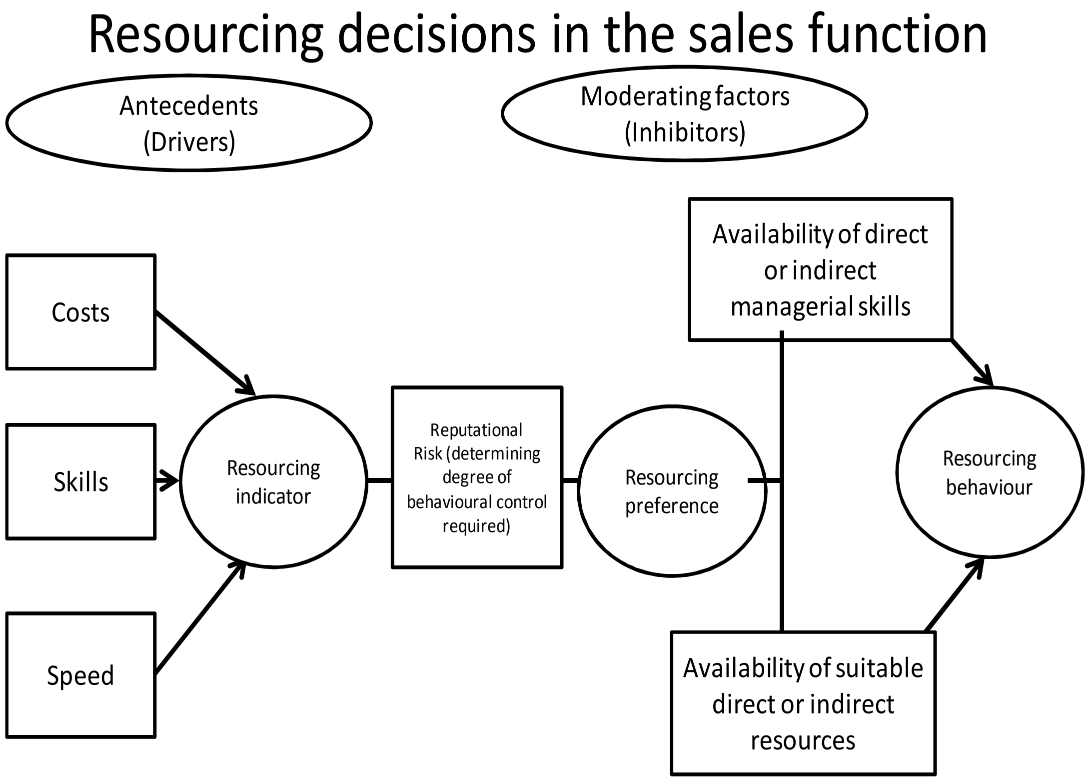

Figure 9: Model of the Resourcing Decisions in the sales function (1)

This model is the end result of this research study. Like Busi and McIvor (2008), the researcher perceived a need to compare, contrast and possibly combine theories. The study set out to achieve a model of the use of contract sales organisations based on the experiences of senior sales managers. By exploring the comparison of contract sales organisations with employed salespeople, it has discussed the factors which may affect all resourcing decisions in the sales function.

The model starts with antecedents to seek new or alternative resources. Respondents to this study saw either the pursuit of lower costs, the acquisition of particular skills or the need for speed in deployment or retrenching as the most important factor/s for them in sales resourcing. Any of these might trigger a comparison between resourcing options. In some cases, a combination of factors may occur. Depending on context, direct employment, contracting out or a new model (e.g. on-line) could be the appropriate answer to a resourcing need.

Control of resourcing was not expressed as a priority, leading the researcher to the conclusion that its real role in the decision-making process is as a moderating factor. The roots of the control construct were difficult to discern. Performance to contract was clearly discussed, but the ability to manage contracts was also observed. Since respondents were concerned about behavioural control, relative ethical standards, and the attitudes of customers towards contracting out sales, it seemed that reputational risk might reasonably precede concerns about operational management.

Reputational risk might often factor out contractors, but even if it does not, there were two other factors. One was the availability of suitable contractors versus employees, and the other was whether the skills set of sales managers was geared towards coaching employee performance or managing through third parties, which was distinguished as a very different skill, often undertaken by a dedicated person. After these are taken into account, a pragmatic solution emerges. It is drawn above to explain a model for considering outsourcing, but it could also explain some of the exception cases that were discussed with respondents, such as the desire to employ key account managers, but taking the decision to engage contractors because the "supply market" for employees was poor.

The engagement of respondents with the research study had tailed off after the initial validation of the researcher's summaries. Twelve of the original respondents sent comments on this model. Most were reinforcing, with comments such as: "It does make sense"; "This is an accurate model in my experience"; "This reflects my experience"; "Reputational risk is the major obstacle"; "You might have caught some of those issues I expressed"; "Exceptional model in my view". Three commented on the importance of reputational risk being explicit as a major moderating factor. Two mentioned the constraints of headcount policy, although since sales managers in the pharmaceutical sector side-step that issue by the use of contract sales organisations, it could be argued that is an indicator within the speed/flexibility construct. One mentioned that the business environment was relevant, including market conditions, competitor activity and recent internal performance. Market conditions and competitor activity could certainly be elements of the flexibility construct based on prior literature, although recent internal performance might be more difficult to accommodate. On the basis of Wood and Welch's (2010) continuum of research findings, it can be argued that this is a model that reflects the state "something has happened" (in the experience of a few sales managers), and due to the extent of the experience of those sales managers, it is worthy of further testing.

It is necessary to emphasise the outcome of this decision-making process. The model is representative of an analytical thinking process that leads a sales manager to decide whether a particular sales activity (which may be small or large) should be undertaken in-house or outsourced to a third party. It cannot determine what model of insourcing (e.g. field sales or web sales) or what model of outsourcing (e.g. dealers or temporary staff), but it can reflect how a sales manager would analyse the "make-or-buy" decision, as was intended in the research aim. The outcome will be "make" or "buy", depending on each analysis. "The "make-or-buy" decision for sales activities" had been defined to the respondents as a choice between employees and contractors and most found it easy to discuss their perceptions in those terms. There was some ambiguity over categorising business models such as dealers (who take stock) and contractors, but there was no lack of clarity about the principle of employees or third parties.

From the point of view of further testing, it is necessary to define and classify the constructs within the model.

4.9.2 Construct definition

“A construct is a conceptual term used to define a phenomenon of theoretical interest” (Rossiter, 2002, p. 308). It requires an object, attribute and “rater entity” in order to be capable of operationalisation and measurement (Rossiter, 2002). Rossiter’s COARSE model has been used to address the construct definition challenge.

“Rater entity” for all the constructs should be individual sales managers, as it is interviews with this category of respondents that has been the medium for defining the model, and there is some feedback that it resonates with them. These are “expert raters” in that they have expertise and experience concerning the constructs within the model.

4.9.2.1 Costs

It has been observed that a desire to decrease costs is an antecedent of resourcing decisions. Some respondents mentioned pressure to reduce costs, whereas others were not pressurised to reduce costs. The object of this construct, i.e. its focus, is an impetus to choose the lowest cost sales resourcing option. It means lowest cost, and does not include wider perceptions of value and long-term returns. Nevertheless, this should be defined as an “abstract formed object”, as it might mean somewhat different things to the raters (Rossiter, 2002). The literature does not offer much guidance about the attributes (dimensions) of the impetus to choose the lowest cost sales resourcing option. Implicitly, it should be a simple comparison between internal cost and external price, but many respondents said they did not have that information, which could cause measurement problems in a quantitative survey. Individual measures are subject to a variety of measurement errors, and therefore multi-item measures are preferred (Churchill, 1979). Four to six items are recommended for each construct (Hinkin, 1998). Espíno-Rodriguez and Padrón-Robaina (2004) used two – desire to obtain a cheaper service and desire to enable hotel costs to be reduced. In this study, it has been observed that working for a company that positions itself as a cost leader is associated with a cost imperative, and that many respondents reported an increase in discussion about the cost of sales. Therefore, four scaleable items to test this construct might be:

- I work for a company that considers itself a cost leader.
- I work for a company where the costs of selling are frequently discussed.
- It is important to me to obtain the cheapest sales resource available.
- It is important to me to demonstrate that I can reduce the costs of the sales function.

As has been observed from the data, a sales manager will have different perceptions about whether or not a contractor is cheaper than an employee.

4.9.2.2 Skills

It has been observed that a desire to access skills is an antecedent of resourcing decisions, and this was the highest resourcing priority for a large proportion of respondents. The object of this construct, i.e. its focus, is an impetus to access skills not currently available to the organisation. This construct has to embrace the granularity of sales skills, so that outsourcing to a lead generation specialist agency is encompassed as well as recruiting a global account manager. This should be defined as an "abstract formed object", as with a cost impetus, it might mean somewhat different things to the raters (Rossiter, 2002). Because prior literature on sales outsourcing has focused on proving or disproving asset specificity, with indicators that have tested for types of sales skills such as knowledge of the company culture, knowledge of products and knowledge of customers, it has not been directly instructive in exploring an access to skills construct. There are exceptions to the rule in this study who have outsourced key account management, but did so to access skills that they could not easily recruit, suggest that the indicators for the skills construct should be generic to the quest for particular skills per activity. This suggests a selection of indicators similar to those for cost, such as:

- I work for a company which prides itself on accessing the highest levels of skills available for its activities.
- I work for a company where the skills needed to address sales activities are frequently discussed.
- It is important to me to obtain the best skills available.
- It is important to me to demonstrate that I can raise skills levels per sales activity.

As has been observed from the data, a sales manager will have different perceptions about whether or not a contractor is more skilled than a potential recruit or redeployed member of staff, depending on the activity being considered.

4.9.2.3 Flexibility

It has been observed that a desire to have resourcing options in itself is an antecedent of resourcing decisions. The object of this construct, i.e. its focus, is an impetus to defer, accelerate or reverse resourcing decisions quickly. This should also be defined as an “abstract formed object”, as it might mean somewhat different things to the raters (Rossiter, 2002). The real options literature and the transaction cost literature are reasonably helpful in identifying items that are associated with decisions to maximise flexibility. Indicators for this construct might include:

- I work for a company where there is a strong focus on being responsive to our markets.
- I work for a company where there is concern about volatility in our markets.
- I work for a company where there is strict control on fixed costs.
- It is important to me to be able to change resource levels quickly.

4.9.2.4 Reputational risk

It is posited in this study that the desire for direct control of sales resources is underpinned by the sales managers’ concern about reputational risk with customers. The object of this construct, therefore, is customers’ association of a supplier’s “channel” with their reputation. This construct can borrow from Weiss *et al*. (1999), but since we have observed that channel choice varies per customer segment, that must be reflected in indicators:

- Customers in this segment believe that firms with employed salespeople are more reputable.
- Customers in this segment have more confidence in firms with employed salespeople.
- Customers in this segment believe that the best suppliers in this industry employ their salespeople.

- Customers in this segment believe that firms with employed salespeople are more reliable.

4.9.2.5 Availability of suitable direct or indirect resources

It is posited in this study that the intention to recruit or to contract will be constrained if either supply market is imperfect. The study has included sales managers who have employed because they perceive the availability of contractors as very limited, and who have contracted because they have perceived difficulties in recruiting. This opens out the "supply market" construct from previous studies that have commented on the availability of contract sales organisations, but not on the ease or otherwise of recruiting permanent employees. The object of this construct, therefore, is the availability of suitable resource from the preferred source. There is no particular help from the literature to inform the attributes of this construct. It would also be difficult to test since it is a second level moderating factor which depends on a prior preference. Indicators would have to be worded with room for the respondent's previous rationale:

- I have no difficulty finding the resource I want to use for this activity.
- I have no concerns about becoming dependent on the resource I want to use for this activity.
- I would have no difficulty finding a replacement for my chosen supplier/employee.

4.9.2.6 Availability of suitable direct or indirect managerial skills

It is posited in this study that the intention to recruit or to contract will be constrained if either the firm does not have the "capability to transact" (Argyres &

Mayer, 2007) when choosing contractors or transformational sales leadership skills (MacKenzie *et al*., 2001) if employing salespeople. The study has included sales managers who have employed because they perceive contractors to be difficult to manage, and who have contracted because they have perceived that managing salespeople is time-consuming and problematic. This opens out the “managerial capability” construct from previous studies that have commented on the capability to manage contract sales organisations, but not on the ease or otherwise of managing permanent sales employees. The object of this construct, therefore, is the availability of managerial skills to elicit performance from the preferred source. There are some quite complex models to explain capability to transact, which are simplified here. Indicators would have to be worded with room for the respondent’s previous rationale:

- I have or can access the skills necessarily to manage the engagement of the resource I prefer to use for this activity.
- I have or can access the skills necessarily to manage communications with the resource I prefer to use for this activity.
- I have or can access the skills necessarily to manage the performance (to key performance indicators) of the resource I prefer to use for this activity.
- I have or can access the skills necessarily to manage changes in deployment of the resource I prefer to use for this activity.
- I have or can access the skills necessarily to manage dispute resolution with the resource I prefer to use for this activity.

Although undoubtedly the model and the constructs require further refinement, there is scope to expect that constructs and the model can evolve to the stage of quantitative testing.

Chapter 5

Conclusions, contribution, managerial implications and limitations of the research

5.1 Introduction

This chapter draws the research project to a close. It discusses the conclusions drawn from the research and presents the summative theoretical model. The contribution of this research to theory and to managerial practice is considered. The limitations of the study are discussed, followed by the potential for future studies.

5.2 Conclusions

This thesis set out to explore the practice of outsourcing sales activities in the UK. Specifically, this study was designed to ascertain the antecedents of outsourcing sales activities and what inhibits the outsourcing of sales activities. Contexts were also important, and the nature of tasks outsourced has been examined.

Qualitative studies cannot make claims to generalisable outputs. Statistical generalisation has not been sought in this study, but transferability (Morgan, 2007). The claims of this study are that something has happened (Wood & Welch, 2010), and subjective facts have been observed (Arbnor & Bjerke, 2009). The study has been undertaken from the interpretivist paradigm, and its focus has been to build theory through conceptualising a model of sales outsourcing as part of a continuum of knowledge-generation (Morgan, 2007).

This project involved in-depth interviews with UK-based senior sales managers to establish their perceptions of the phenomena affecting their sales resourcing decisions, with a focus on whether salespeople might be recruited or redeployed, or whether third party resources might be contracted to perform the activity. This project established constructs based on existing literature and has established their positioning and relationship to each other in the resourcing decision-making process. One of the benefits of a qualitative approach has been to establish contexts, which helps to illuminate even how exceptional circumstances fit the model, e.g. why a niche company might outsource highly skilled tasks. This, together with several cycles of checking with respondents, has underpinned the contingent validity of the model (Maxwell, 1992; Healy & Perry, 2000).

Constructs are presented in the model illustrated in Figure 5.1. This model builds on existing theory and extends it to a more holistic level, encompassing all the scenarios explored in the research. It is not necessarily an objective truth. It is based on the perceptions of people who make sales resourcing decisions, within the specific context of this research. Therefore, it is their interpretation of realities which affect their decision-making.

Antecedents and moderating factor concepts were derived from extant literature. The following propositions were explored:

Proposition 1: Comparative cost of resource options will be an antecedent in "make-or-buy" decisions in the sales function

Although many respondents reported not having enough information on which to make cost comparisons, cost was a priority antecedent for a few respondents, notably those working for companies claiming cost leadership. Even where robust comparisons were being made, there were disagreements about the cost advantage of contract sales organisations.

Proposition 2: The ease with which resource options can be controlled will be an antecedent in "make-or-buy" decisions in the sales function

Control was a matter of interest, but it did not appear to be driving resourcing decisions; it appeared to be playing a moderating role.

Proposition 3: The comparative skill level of resource options will be an antecedent in "make-or-buy" decisions in the sales function

Access to skills was a priority for most respondents. This was the topic that generated most discussion, and had most nuances. For most categories of skill, employees were considered superior, apart from "pure" selling skills, suggesting that contract sales organisations are perceived to be very focused on selling as a skill in its own right.

Proposition 4: The comparative speed and flexibility in deployment of resource options will be an antecedent in "make-or-buy" decisions in the sales function

Although only a priority for a few, flexibility was considered desirable and a mix of resourcing options was generally considered to be useful. Both employees and contractors were considered capable of flexibility.

Proposition 5: The availability of suitable suppliers will be a moderating factor in "make-or-buy" in the sales function

Respondents perceived constraints in the supply market for contract sales and in the recruitment market.

Proposition 6: The ability to manage resource options will be a moderating factor in "make-or-buy" in the sales function

This generated considerable discussion about the different skills involved in managing contract sales organisations versus employed salespeople, with some respondents clearly having a bond with their reporting staff. Where more outsourcing was done, the more success with outsourcing was perceived.

Proposition 7: The perceived "legitimacy" of resourcing options will be a moderating factor in "make-or-buy" in the sales function

Legitimacy was important, not because of "industry norms", but because of concern about customers' perceptions of contracting-out sales, leading to reputational risk. This appeared to be the root cause of a desire for behavioural control.

The literature offers a variety of explanations for outsourcing in general. Transaction costs economics attracts most comment, presenting a desire to reduce costs and an expectation that in-house sales will be cheaper where market conditions are volatile, skills are specific or behavioural control is difficult. The nature of some of the literature, and specific comments by Anderson *et al*. (2003), suggested that desire for behavioural control might be a driving force in its own right.

These findings do not contradict the TCE prediction that the costs incurred in managing a contract will influence make or buy decisions in the sales function, but it places this consideration as a moderating factor. This is consistent with Williamson and Ghani's (2012) comment that transaction costs may be subsequent. However, this study has attempted to deconstruct transaction costs in a way that is specific to the sales function, and proposes that the reason that close behavioural control of sales activities might be desirable is to minimise reputational risk with customers. This explains to some degree the dominance of insourcing in sales in business sectors, but the exceptions in this study flushed out some further TCE considerations that can change a resourcing preference – conditions in the supply market and skills available internally to manage the resourcing preference. In short, TCE proved to be a valuable theoretical basis from which to explore make or buy in sales.

The findings of this study do not contradict the resource based view either, as evidence of consideration for “competences” was common. The language of RBV has crossed into use in practice, so several respondents discussed core and non-core competences. Access to superior skills was a priority for 52% of respondents in resourcing decisions and skills generated the most discussion. However, the overlapping concept of “asset specificity” from TCE is perhaps a better theoretical foundation for categorising respondents’ perceptions about skills. Most respondents seemed to prefer to insource complex or integrated skills (combinations of company, product and customer-specific knowledge and skills). Meanwhile, contract sales organisations seem to be respected for possessing non-specific, transferable skills -selling skills.

When it comes to speed in implementing change or realising opportunities, real options has more resonance than transaction cost economics with respondents’ perceptions and behaviour, providing several examples of the use of short-term solutions from contractors to maximise flexibility and to minimise resource commitment. Therefore this study adds to the body of literature that has found real options to be relevant to resourcing decisions. While sales employees have shown willingness to change in hard economic times, 69% of respondents perceived that commercial contracts were easier to change than employment contracts. TCE would have predicted that employment contracts were more adaptable. The economic recession in the UK has had a casualising effect on most forms of work (ONS, 2010/11); therefore caution should be applied as this study was conducted at a time when flexibility might have been of particular concern.

In an exploratory study of this type, it proved valuable to draw from the literature for all three theoretical perspectives in order to provide a framework for discussions with sales managers.

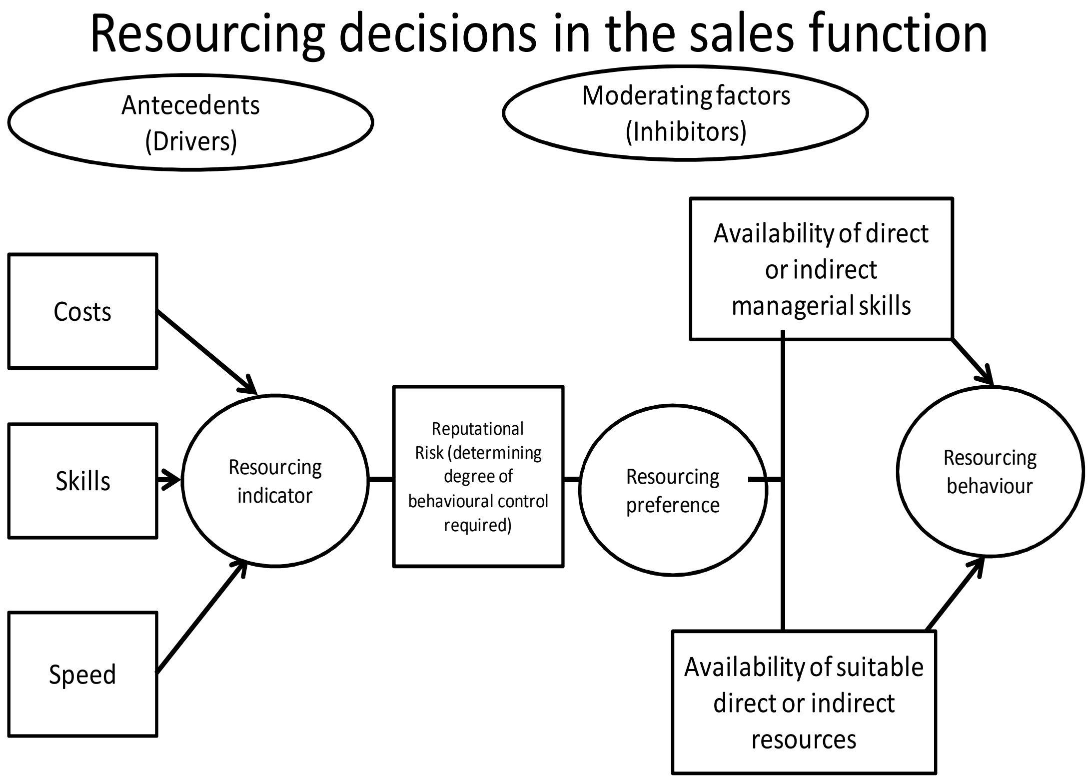

Figure 10: Model of the Resourcing Decisions in the sales function (2)

This model is the end result of this research study. The study set out to achieve a validated model of the use of contract sales organisations and, by comparing contract sales organisations with employed salespeople, has established the factors which, in general, affect all resourcing decisions in the sales function. Given the limited nature of the literature to date on considerations of "make-or-buy" in the sales function, this model is a significant contribution to knowledge. However, it is based on findings from a small cross-sector, convenience sample in one country, and it is not generalisable to all sales management resourcing situations. It is a visual representation of themes emerging from in-depth interviews and requires further testing.

Having identified the use of contract sales organisations as an appropriate area of study, this research project began with a review of relevant literature. With very little literature devoted to sales outsourcing, or even channel management, the literature examined the theoretical foundations for “make-or-buy” across all business functions; specifically transaction costs economics, the resource-based view and real options theory. The literature was examined with a view to understand the field, and to identify the extent of the gap in the literature with regard to the outsourcing of sales activities. The lack of studies on sales resource decisions from an interpretivist paradigm was noted, together with the limited focus on the transaction cost economics approach in prior literature.

Propositions and research questions were developed:

- It was expected that a desire for lower costs would lead to a higher propensity to outsource sales, and the two cost leaders in the sample did have a high propensity to outsource sales.
- It was expected that a desire for direct control of the sales function would lead to a lower propensity to outsource, and while many respondents thought control was very important, it was not an antecedent and therefore its role has been examined as the moderating factor.
- It was anticipated that a desire to fill a specific skills gap would lead to outsourcing, and this approach was found in this study.
- It was also anticipated that a desire for a flexible response to market conditions would lead to outsourcing, and there was some indication of this approach in the study.

Supply imperfections, lack of management skills and industry norms were expected to moderate the desire to outsource sales activities. Supply imperfections were cited by respondents in both recruitment and contract markets. Rather than a conscious lack of skills to manage outsourcing, sales managers expressed a preference for coaching the performance of employees rather than contract management (perceiving employees to be easier to manage). Finally, while respondents eschewed the idea of being beholden to industry norms, many expressed concern about customers' expectations of their brand ambassadors. Reputational risk emerged as a primary moderator of resourcing preference.

The methodology chosen for the research was based on the interpretivist paradigm, and involved qualitative methods. Semi-structured interviews were undertaken by telephone. The qualitative approach was chosen because, given the lack of prior research specifically examining the outsourcing of sales activities, the researcher was convinced that breadth of exploration of the topic was necessary as well as depth in understanding sales managers' perceptions of cause and effect. This knowledge was necessary to refine and extend current levels of knowledge about the topic.

The fieldwork was conducted by four interviewers to avoid interviewer bias, with the researcher listening in on several of the discussions for quality control purposes. Accessing senior sales decision-makers proved to be very challenging. Nevertheless, twenty nine interviews from a variety of substantial companies across different industry sectors provided sufficient similarities in terms of themes emerging from discussion and sufficient breadth of context to refine the conceptual model. The focus of analysis in this study is the "make-or-buy" decision when sales resource is needed. (If it had been a quantitative study the dependent variable in the model would have been outsourcing behaviour or "propensity to outsource"). Due to the qualitative approach, respondents were able to call upon a number of "make-or-buy" decisions from their experience to explain their preferences.

The data was analysed using Nvivo, a computer program designed to aid qualitative data analysis. Interview data was initially analysed sequentially, using the concepts emerging from the literature. This data was further analysed by sub-theme, in the case of skills requiring five levels of coding. The structure of the findings chapter reflected the themes identified in the literature review. Most propositions are observed, but control in particular has a different role from that first envisaged. The model is an assumption and a representation of the constructs and the process which may connect them. Feedback has been received from twelve respondents, with most indicating that the model does connect with their meaning.

In conclusion, this research project has addressed research questions on the topic of outsourcing sales activities with a qualitative research method within the interpretivism paradigm. Care has been taken to ensure the quality of the research using the literature sources outlined in the methodology chapter. As a result of the research, a modified model of resourcing decisions in the sales function has been proposed.

5.3 Positioning the research

This table demonstrates the position of this research compared to previous work in the field of sales outsourcing.

Previous research	**This study**
Quantitative	Qualitative
Narrow focus on transaction cost economics	Encompasses three theoretical approaches
Limited scale of samples	Breadth across industry sectors within a small sample
Limited insight re: cause and effect	Respondents' perceptions of cause and effect
Concentrated on "all or nothing" outsourcing of sales activities	Examines all degrees of outsourcing, from zero to 100%
Assumptions made about moderating factors	Exploration of the role of moderating factors

Table 30: Positioning the research

Anderson’s (1985) study and Krafft *et al*.’s (2004) study of sales outsourcing, together with a small number of narrowly focused studies from Anderson and Coughlan (1987) to Rapp (2009) adopted a positivist approach and used quantitative techniques. Krafft *et al*.’s (2004) had the broadest scope (270 companies across five sectors) but most others have been smaller samples or single sectors. Although there is reasonable support for the predictive power of transaction cost economics when it comes to sales outsourcing, there is limited explanation of cause and effect. Hybrid governance or granular outsourcing has not been explored. Some moderating factors have been suggested, but not tested.

In comparison, this study uses qualitative enquiry. It explores three different theoretical approaches and has achieved breadth of coverage within a relatively small sample of respondents. It explores their perceptions of cause and effect in “make-or-buy” decisions in the sales function, based on extensive levels of experience (from six years to twenty years), with two-thirds of the sample having more than ten years experience. Therefore, the number of “units” of “make-or-buy” decision being examined was large, given that respondents reported escalating levels of reorganisation. This study examined different levels of outsourcing, eventually categorising them into no outsourcing, minimal outsourcing (1-10%) and significant outsourcing (11-100%). There was specific discussion of moderating factors which had been suggested in earlier studies.

5.4. Contribution to theory

This research has elaborated a new model for understanding the antecedents and moderating factors that influence how sales managers’ perceive sales resourcing decisions. Previous studies have examined “all or nothing” sales outsourcing in limited contexts from a particular theoretical lens. This study has examined all possible instances of outsourcing within the sales function from a variety of theoretical angles, while accommodating respondents' own world-view. Its breadth allows for more than one antecedent of any particular outsourcing decision to be the driver of the model, and the model explains the role of previously identified moderating factors. Nothing so comprehensive has been attempted before in the field of sales research. Given the lack of research about the whole sales function explained in previous chapters, this is therefore a significant contribution to an emerging body of literature.

This study has addressed a gap in the literature on outsourcing by studying the specifics of the sales function, and a gap in the sales literature by studying "make-or-buy" decisions using a qualitative method. Theory development in the field of sales is relatively limited compared to other disciplines. As explained, given the findings of Carter *et al*. (2008), sales managers have lower rates of participation in academic studies than other professions. Further work was needed to understand sales resourcing decisions.

5.4.1 The theoretical model

This model contributes to the domain of outsourcing by providing a model of the connections between constructs previously associated only with one approach, or not tested.This study, by exploring in depth the perceptions of sales managers about their resourcing choices brings rich linguistic data to bear on the "make-or-buy" question in sales, which could be further tested by quantitative means. It is the first comprehensive approach to explore concepts across theoretical schools. It cannot be generalised to all sales resourcing situations and requires further testing.

5.4.2 The core antecedents of sales resourcing choices

The model starts with antecedents to seeking new or alternative resources. Respondents to this study saw either the pursuit of lower costs, the acquisition of particular skills or the need for speed of response to market conditions as the most important factor for them in sales resourcing. Any of these might trigger a comparison between resourcing options. Depending on context, direct employment, contracting out or even a new model (e.g. on-line) could be the appropriate answer. This study confirms that, depending on context, cost, access to skills or speed to respond to the market, are important antecedents of resource changes and resourcing decisions.

5.4.3 The moderating role of control

It was difficult to deconstruct “control”, which might have been treated as a factor moderating cost or an antecedent in its own right. Control of resourcing did not register as a priority, apart from one case. This led the researcher to the conclusion that its real role in the decision-making process is as a moderator.

5.4.3.1 The connection between reputational risk and desire for behavioural control

Many references were made to quality, the need for behavioural control and the need to avoid dependence. More pertinently, since we are examining a function at the customer interface, there was clear concern about reputation with customers from the discussion on industry norms and reputation. It therefore seemed that for the sales function, reputational risk would be the underlying rationale for a desire for behavioural control of an activity. Reputational risk would frequently screen out contractors, but even if it did not, other factors were taken into account.

5.4.4 Sales managerial competences – managing directly or managing indirectly

Many respondents felt that their skills were geared towards coaching employee performance. Most also felt that employees were easier to manage than contractors. Managing through third parties was distinguished as a very different skill, often undertaken by a dedicated person, which needed to be in place before success could be achieved with utilising contract sales organisations.

5.4.5 Supply market

This study confirms the expectation that supply market imperfections would constrain outsourcing, but also observes that there are imperfections in the market for recruiting salespeople which might provide a reason to proceed with outsourcing, at least on a short-term basis (e.g. temp view to perm).

5.5 Contribution to methodology

There are aspects of this study that make a contribution to the literature on methodology.

5.5.1 Use of telephone interviewing in qualitative studies in the management field

To date, there do not seem to have been many specific metohodological papers on the use of telephone interviewing for qualitative studies in a business management study. This study is a case of successfully using the telephone to gather large quantities of data from respondents in senior roles, without loss of rapport or emotional emphasis.

5.5.2 Interviewing elites

To date, there do not seem to have been any studies concerning the interviewing of elites in management studies, yet most qualitative and case study work in the management field is likely to involve senior decision-makers. When interviewing elites, they are highly unlikely to have any deference to the interviewer. In fact, the bias may be the other way round, therefore the researcher can have confidence that the interviewees expressed their own meaning when prompted for opinions.

5.6 Contribution to practice

5.6.1 A model for decision making

Although this model is not generalisable, as indicated from the feedback from respondents (Appendix H), it provides some useful food for thought for sales managers making resourcing decisions. Since access to information about resourcing comparisons emerged as a concern for 69% of respondents, this model provides prompts for the categories of information that are needed to enable robust and defensible decisions to be made. Besides costing data, evidence about skills comparisons and speed of deployment are a starting point. The search for potentially elusive “transaction costs” can be illuminated by examining reputational risks which would flag up the amount of behavioural monitoring that might be required. However, that is not all that is required, because choice and competition in the supply market (recruitment or contract) and the availability of employee or contractor management skills can make a resourcing preference untenable, so information about both of these factors should be explored.

The model does require further testing, but it can still serve as a prompt to sales managers to ensure that they have sufficient information and evidence for resourcing decisions, whether they occur during a budget cycle or when shorter-term changes are necessary.

5.6.2 Assessment of why behavioural control is needed and to what purpose it is applied

Behavioural control is often a cultural “given” in some sales departments. This study has gone some way to ascertain the roots of a preference for behavioural control in business-to-business selling. Although there are exceptions, wherever the customer expects the salesperson to be involved in the business relationship for the long-term, the supplier is likely to provide a framework for that expectation to be fulfilled.

5.6.3 Objectivisation of quality of supply and quality of internal management

Assumptions about quality of supply and quality of internal management appear to have been one-way in the literature, and probably one-way in practice. Comparing imperfections in the supply market for contractors with imperfections in the recruitment market may result in more objective considerations. Similarly, the identification of coaching employee performance and managing contracts as very separate jobs requiring different skills and preferences may be helpful to companies wishing to get the best out of employed and external resources.

5.7 Limitations of the research

5.7.1. The general constraints of qualitative studies

This research has a number of limitations common to all qualitative studies. It has achieved richness and depth in linguistic data, but it required a large resource for data gathering, and the process of data reduction may have lost some of the power of the data. It offers unique insights into the way the sales resourcing decisions are made, but it is not generalisable. It is a relatively small cross-sector study, and while no limits are suggested in the literature for qualitative studies, more data would mean more confidence. Counting of textual meanings and emphasis can only suggest weighting of importance, but cannot test internal validity as with statistics. Nevertheless, testing would have limited the desire for breadth and depth of coverage of the research aim and objectives. Within the time frame available, data absorption was reached and a large amount of comment was gathered.

5.7.2 Convenience sampling

Due to the direct involvement of the researcher in the recruitment of many of the respondents, this sample can only be described as a convenience sample. However, this is modified to some degree by recruitment from contacts of the research company as well as from the wider networks of the University of Portsmouth's MA in Sales management and the Sales Leadership Alliance. The structuring of the sample was limited by time and money, but most of all by the difficulty of accessing a very busy elite. Nevertheless, the fact that most of the respondents were engaged with the development of the sales profession through the MA or SLA emphasised their role as opinion leaders, which made them very thoughtful respondents. All of the respondents were senior people in substantial companies with extensive experience and therefore had a large number of resourcing decisions to discuss.

5.7.3 Telephone interviewing

Telephone interviewing has been criticised for resulting in poorer quality data than face-to-face interviews (Jordan *et al*., 1980). This study set out to overcome possible difficulties of telephone interviewing, such as loss of facial expression and social cues, by taping the interviews to check for verbal cues and by prompting for strength of feeling. As noted by Carr and Worth (2001), the telephone is probably the primary form of communication that a sales manager has with both customers and employees. Respondents were used to having lengthy conversations on the phone and seemed to prefer the telephone interview. Also, in order to overcome possible differences in rapport between interviewers, the researcher maintained email contact with respondents in order to validate their meaning.

5.7.4 Single culture

All the respondents in this study were senior sales managers based in the UK, although many of them had pan-European or global experience and references were made to other countries. It would be expected that senior people in large companies have international experience, but nevertheless, it must be acknowledged that all respondents came from a single national culture and therefore some national bias may affect these findings.

5.7.5 Researcher bias

The researcher is someone known to a number of the respondents, some of whom might perceive her previous work on sales outsourcing as advocating sales outsourcing. Although sales managers proved to be an elite able to rise above any perceived influence from a researcher, this potential for bias was minimised by engaging a third-party specialist in interviewing in business-to-business research to provide interviewers. It was possible that the researcher could introduce her own bias at the coding stage, but this was minimised by use of the Nvivo software. The researcher was trained on the software both one-on-one and in a group, where cross-coding was tested. The mentoring of the software expert was leveraged to check that the right approach to data analysis was being undertaken. In addition, the researcher referred back to respondents at five stages in order to check the accuracy of capturing their meaning and gauge their reactions to her analysis of the data overall.

5.7.6 Process

Following the processes discussed in the methodology chapter such as piloting and validation from respondents, great care was taken to ensure the confirmability, authenticity and credibility of the research.

5.8 Suggestions for further research

5.8.1 Other business cultures

This study might be repeated within other national cultures or across national cultures.

5.8.2 The skills needed in managing sales third parties

Although this study has established that the skills required to manage through third parties are different from the skills needed to coach employees to better performance, most respondents were not well-equipped to discuss the skills of managing third parties, other than references to compliance control. Case studies of the management of third parties in the sales function, including scenarios where third party effort has to be integrated with that of employees (such as employees of value-added resellers working on key account teams, or contractors providing desk-based support to key account teams) would be a useful contribution to knowledge.

Case studies could also examine the mechanisms and success rates of behavioural control of third parties, such as engendering cultural affinity. The question of the restrictions imposed by employment law on the integration and behavioural control of contractors is worthy of exploration.

5.8.3 Characteristics of successful contract firms

Some sales managers have long-term successful relationships with third parties; others have had very bad experiences. What do contract sales organisations have to do to be perceived as reliable, competent partners? There are some indicators in this study, but a dyadic study of both the client and the contractor would furnish the best research approach to this topic.

5.8.4 The identity of the sales manager as coach

It was not within the remit of this study to examine the relationship between a sales manager and their reporting staff. However, it was clear from some respondents that there is a strong bond between sales managers and salespeople. They enjoy their role as leader and coach, and the coaching of employees to achieve higher levels of performance is part of their identity as a sales manager. It seems that the majority of the leader-member exchange studies focus on the way that employees perceive their managers. In the sales function, there seems to be a rich source of knowledge to be tapped about how managers perceive their responsibilities to their reporting staff. It may or may not be unique to the sales profession, but it is certainly worth exploring and testing.

5.8.5 The changing from employment to third parties and vice versa

If true flexibility is to be achieved in sale resourcing, opportunity realisation will often involve transition from one resourcing option to another. Instances have emerged in this research of handovers from contractors who have been responsible for product launches to employed staff responsible for rolling out products through their growth and maturity phases. When products reach decline, they are candidates for contracting out again. Similar things may happen with pilots in particular customer segments, or customers growing towards key account status. So that sales managers can apply optimum resource to opportunities, changes need to be prompt and objective, but respondents have observed both employee resistance to change and contractor opportunism. Providing the right foundation for changing resourcing models must be important to sales managers. Case study research seems to be the appropriate method for examining these phenomena.

5.8.6 On-line business-to-business selling as an alternative to indirect sales

Although mentioned by only one respondent in this study, the expectation that the Internet would disintermediate the supply chain and result in direct relationships between every small customer and brand owners was common in the early days of the internet. Porter (2001) commented that the Internet reduced the need for established sales forces or traditional channels. In reality, marketing channels of all types continue to flourish and brand owners are challenged with the management of multiple channels, and customers who switch between them. Even Dow Corning, who created a considerable stir with their web subsidiary Xiameter (Gary, 2005), also kept distributors and resellers. While there is literature on e-procurement, there is not much clarity in the sales literature about the degree to which suppliers in business-to-business sectors are transferring selling activity to electronic channels. Case study research would also seem to be the appropriate method for examining this trend.

5.9 Reflection and closing comments

This thesis has met its objectives because a model of sales resourcing decisions has emerged and significant insights into the decision-making of sales managers faced with resourcing challenges have been documented.

Having entered the academic community somewhat late in life, the completion of this PhD has had a significant impact on the researcher. It has greatly increased her self-awareness about her limited strengths and extensive weaknesses as a researcher. It was a major learning experience in understanding the research process and the challenges of extending knowledge, and these lessons have had a major impact on her career. She experienced considerable difficulty in the early stages of the research project, and progress would not have been achieved without the support of her supervisor, heads of department, the wider research community in the department, faculty and university and last, but not least, the goodwill and support of opinion leaders in the sales profession.

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APPENDICES

APPENDIX A

CONTRACT SALES ORGANISATIONS RESEARCH

CONDUCTED ON BEHALF OF: BETH ROGERS, PRINCIPAL LECTURER IN SALES MANAGEMENT AT PORTSMOUTH BUSINESS SCHOOL

Interview guide

Introduction

Note to interviewer: Please read this statement to the respondent and ensure that the confirmation of the respondent is on the tape.

Thank you for agreeing to take part in this research. Sharing your experience of making sales resourcing decisions is very valuable to us. Please answer explaining your personal view, rather than company policy. The focus of this research is on the use of third party organisations to replace or augment the effort of employees in achieving revenues for companies. These questions are about your use of third parties, such as sales agents, contract sales organisations and telesales companies. These organisations sell or have sales-related contact with your customers without holding stock like distributors.

When this questionnaire was piloted, the interviews took between 45-65 minutes to complete. I will prompt you where more detail is needed and move quickly over questions where short answers are needed. You may refuse to answer any particular question or give a “don’t know” response to any question. You may change your mind about participation at any time.

<u>Please note that the interview will be recorded and subsequently transcribed. Only aggregated data, supported by unattributed quotes, will be reported in the final version of this research. This research forms part of a doctoral thesis, which is required to be in the public domain. You will be contacted by the lead researcher to confirm the main themes in your responses and to provide feedback if you have requested it.</u>

Are you happy to proceed? YES/NO

Note to interviewer: If the respondent has any concerns about confidentiality, refer them to me on xxxxxxxxx and if necessary reschedule the interview.

Section A

This section is about your company and your role.

Note to interviewer: Short answers are acceptable throughout this section.

How would you describe your company?

Prompts: What industry sector are you in? What is your market share? What is your value proposition compared to competitors?

Note to interviewer: The respondent may be sales manager for a division of a company with many business units. In which case, it is his/her division which is of interest.

Would you describe your position in your industry as:

One of the top ten

Medium sized

Small or niche player

On a scale of 1-10, where one is very low and 10 is very high, how would you describe the intensity of competition in your industry:

Prompt: high intensity of competition is characterised by low profitability and frequent changes in market share between competitors

What percentage of your revenue comes from what proportion of your customers? (For example, many companies say that 80% of revenue comes from 20% of customers)

REVENUE ....

FROM

CUSTOMERS..

How would you rate your sales productivity (i.e. ratio of sales generated to sales costs) versus competitors over the past three years?

Worse

Same

Better

Prefer not to comment

How would you describe the variations in demand that you have experienced in the past few years?

Prompts - Stable and predictable? Volatile and unpredictable?

What has caused that?

Do you expect it to continue in this pattern?

What is your job title? ....

How would you describe your current role?

How much control do you have over the way that the sales department is operated?

Prompt – for example, how often do colleagues such as the finance director or HR director get involved in resourcing decisions?

How many years experience do you have of sales management?

How would you describe the challenges you have had in managing sales resources over the past few years?

In general, how would you describe your approach to using third parties to undertake sales activities?

Why do you think that?

How strongly do you feel that?

Please could you specify what proportion of your sales activities are delegated to a contract sales organisation or similar third party?

Note to interviewer: answer should be x%, prompt for percentage if necessary.

Please could you confirm which of the following tasks third party organisations are used, or have been used in the past three years, for by answering with a yes/no, (or comment on any partial applicability)

Product launch	Yes / No
Particular market segments	Yes / No
End of life products	Yes / No
Sales agency for particular products	Yes / No
Sales agency for particular territories	Yes / No

Coverage for extended leave, e.g. sick or maternity leave	Yes / No
Coverage for general staff shortages	Yes / No
Lead generation	Yes / No
Lead qualification	Yes / No
Post -sales follow-up	Yes / No
Key accounts	Yes / No
Merchandising	Yes / No
Sales admin support	Yes / No
Other, please specify	Yes / No

Comments, if made……………………….

Do you have other third party arrangements, such as distributors?

When are sales resourcing decisions made or reviewed?

Prompts: annual review, change in economic conditions

What is the process for contracting out a sales task?

Where you use contractors, how would you describe the degree of success it brings to the task contracted out?

Thank you for your comments so far. I am now going to ask some questions about four reasons commonly given for changing resource models in the sales function. Please let me know if any of the questions are not relevant to your experience or you have no opinion on them.

NOTE: Sections B to E to be rotated between interviews.

Section B

This section is about your thoughts on the costs of employing salespeople versus the price offered by third parties for doing a sales task.

Note to interviewer: Please encourage elaboration with Qu 1 and Qu 2. Short answers are acceptable from Qu 3 onwards.

In your opinion, is it cheaper to employ salespeople rather than use agents/contractors or the other way round?

Why do you think that?

How strongly do you think that?

Please could you explain how you would approach comparing costs between recruiting or deploying salespeople to do a task or engaging with a third party supplier:

How important is it in your company to minimise costs? (In general, not just relating to cost of selling).........................

To what degree are the costs of selling a source of discussion within the company?
....

Do you feel that there is enough information available to you on which to base cost comparisons between employment and contract options?...

Within your industry, are you:

The cost leader

More differentiation-oriented than cost-oriented

Note to interviewer: The intention here is to ascertain whether the company focuses on costs or being different to customers in some way. Their differentiation may be "the highest quality in our sector", "the most innovation in our sector", etc.

Is the overall cost of running the sales function (as a proportion of revenue):

Increasing

Decreasing

Overall, are cost considerations having any effect on your use of contractors? (If so, in what way?)

Section C

This section of the interview is about your thoughts on how easy it is to control salespeople versus how easy it is to control third parties.

Note to interviewer: Please encourage elaboration with Qu 1 and Qu 2. Short answers are acceptable from Qu 3 onwards.

Overall, do you think that employed salespeople are easier to manage than third party contractors or the other way round?

Why do you think that?

How strongly do you think that?

Please could you explain how you would approach comparing management effort between recruiting or deploying salespeople to do a task or engaging with a third party supplier.

What is the supply market for recruiting salespeople, compared to the availability of contract sales organisations/sales agents?

How important is it to monitor the behaviour of salespeople or contractors?

How do you do that?

Do you perceive any differences between employed salespeople and contractors in the observance of your business conduct guidelines or ethical code?

What are the implications of becoming dependent on particular employees?

What are the implications of becoming dependent on particular third parties?

What are the implications for your skills in managing employees versus contractors?

How many reputable contract sales providers could you name? (1, 2 or 3, etc.)

.. *LIST NAMES if offered

Note to interviewer: If the respondent asks what is meant by "reputable", it is contract sales organisations that they would feel confident in using.

Comparing the legal framework in the UK for employment contracts versus normal commercial contracts, which is:

CIRCLE ONE THAT APPLIES (and capture comment)

Easier to set up?	employment / commercial
Easier to change as and when needed?	employment / commercial
Easier to terminate?	employment / commercial

Overall, are control issues having any effect on your use of contractors? (If so, in what way?)

Section D

This section of this interview is about your thoughts on the competency/skills value of employed salespeople versus third parties.

Note to interviewer: Please encourage elaboration with Qu 1 and Qu 2. Short answers are acceptable from Qu 3 onwards.

Overall, do you think that employed salespeople are more skilled than third party contractors, or the other way round?

Why do you think that?

How strongly do you think that?

Please could you explain how you would approach comparing the skills of employed salespeople with the sales skills that you might be able to buy from a third party.

....

To what degree is it important for your company to be different from competitors?

How long do you spend on training salespeople about:

Your company culture

Your Products

Your customers

Note to interviewer: Prompt for days/weeks/months if necessary

How long do you spend on training contractors about:

Your company culture

Your Products

Your customers

Would customers identify the way you sell as part of your differentiation? (if so, how?)

To what degree do personal relationships between your salespeople (whether employees or contractors) and customers have a lot of influence on sales success?

To what degree is your approach to selling team-based (i.e. technical or operational staff are involved in sales campaigns)?

To what extent do salespeople or contractors get involved in non-selling activity such as post-sales support and problem-solving?

To what degree does your company's reputation in the industry influence your use of employees versus contractors?

To what degree is it important for your company to conform to the norm for your industry/supply chain in terms of how much you use employed salespeople versus contractors?

Why is that?

When a salesperson leaves the company, which skills set is missed the most (by you):

Selling skills

Product knowledge

Knowledge of company culture and procedures

Knowledge of the customer

Working relationships with colleagues

When a relationship with a contractor is terminated, which skills set is missed the most (by you):

Selling skills

Product knowledge

Knowledge of company culture and procedures

Knowledge of the customer

Working relationships with colleagues

Overall, are skills issues having any effect on your use of contractors? (If so, in what way?)

Section E

This section of the interview is about your thoughts on the importance of having flexibility in resource options.

Note to interviewer: Please encourage elaboration with Qu 1 and Qu 2. Short answers are acceptable from Qu 3 onwards.

Overall, do you think that employed salespeople, contract sales organisations or a combination of both, give you more flexibility when you are making resourcing decisions?

Why do you think that?

How strongly do you think that?

Please could you describe to what degree you feel that you need internal and external options for resourcing the sales department to adjust to change:

How important is it to your competitiveness to be able to increase or decrease volume of activity without disproportionate increases in costs?

How quickly can you implement change?

Would you be willing to share examples of fast change and slow change?

What is your experience of employed salespeople or third parties helping you to accelerate change?

What is your experience of employed salespeople or third parties resisting change?

What is your experience of employed salespeople or third parties helping you to avoid financial risk in times of change, e.g. taking a pay cut or extending credit terms?

Overall, are flexibility issues having any effect on your use of contractors? (If so, in what way?)

Section F

This is the final section.

We have discussed cost, control, skills and flexibility. In deciding how to resource a sales task, how would you prioritise these four factors?

1

2

3

4

Why do you think that?

How strongly do you think that?

The following questions are about aspects of your sales performance versus competitors. We only require a very general answer, but if you do not use a particular measure, or regard it as too commercially sensitive, you can decline to comment.

On a scale of 1 to 10, where 1 is much worse and 10 is much better:

How would you rate your revenue growth versus competitors over the past three years:

How would you rate your control of sales-related overheads versus competitors over the past three years:

How would you rate your success with product/service launches versus competitors over the past three years:

How would you rate your overall customer retention versus competitors over the past three years:

How would you rate your success in improving share of wallet in key accounts versus competitors over the past three years:

How would you rate your ability to retain highly valued sales employees versus competitors over the past three years:

How would you rate your success in improving customer advocacy (i.e. number of customers recommending you to others) over the past three years, versus competitors?

How would you rate your success with winning new customers versus competitors over the past three years:

How would you rate your speed in responding to changes in the business environment versus competitors over the past three years:

How would you rate your success with utilising third parties versus competitors over the past three years:

Finally is there anything about this topic that you expected me to ask which I have not asked?

What would your answer have been?

THANK RESPONDENT AND CLOSE

APPENDIX AA: Sources of prompts

The literature foundations for the survey artefact

Questions and Prompts	**Derived from construct/ concept**	**Key literature source: Authors/date**	**Type of study**	**Notes**	**Expectations**
Section A - Contexts					
How would you describe your company?				Recommended by research firm as a good way of establishing rapport. Respondents happy to comment on unique selling points.	
Industry sector	Industry sector is used a) to ensure a broad mix and b) to discern any differential use of sales outsourcing.	Krafft *et al.* (2004)		Some sales outsourcing studies have been single sector - Anderson (1985) was in one sub-sector of manufacturing; Wilson & Zhang (2002) in manufacturing; Rogers (2009) in pharmaceuticals.	More outsourcing in ICT and healthcare.
Market share	Company size is used as a control variable which may indicate differential need for sales outsourcing	Anderson (1985)	Empirical	Company size can be determined in many ways. Sales managers are most likely to be aware of market share.	Companies chosen for size and influence – more likely to have some experience of outsourcing.
Value proposition	Some types of differentiation might preclude outsourcing	Wilson & Zhang (2002)	Empirical	Expectation from the literature that differentiation leads to insourcing while cost leadership leads to outsourcing.	Service-oriented companies least likely to outsource sales.

Questions and Prompts	**Derived from construct/ concept**	**Key literature source: Authors/date**	**Type of study**	**Notes**	**Expectations**
Intensity of competition in your industry	A factor requiring flexibility, so possibly more outsourcing	Fredericks (2005) Braunscheidel & Suresh (2009)	Conceptual Empirical	Literature suggests that flexibility is a response to environmental uncertainty and competitive intensity.	More intense competition should lead to more outsourcing, particularly for short-term projects
Percentage of revenue comes from what proportion of customers	Transaction specificity of assets: customers	Anderson (1985)	Empirical	Anderson did not find the importance of customers to be relevant, but there is a body of literature on key account management that suggests that key accounts would be insourced.	A high gearing towards strategically influential customers will be characterised by low levels of outsourcing.
Sales productivity over last few years	Labour productivity	Girma & Görg, 2004	Empirical	High labour productivity associated with high levels of outsourcing	High sales productivity associated with high levels of outsourcing
Variations in demand	A factor requiring flexibility, for which TCE predicts insourcing and RO predicts outsourcing	Fredericks (2005) Braunscheidel & Suresh (2009)	Conceptual Empirical	Literature suggests that flexibility is a response to environmental uncertainty and competitive intensity.	More volatile demand should lead to more outsourcing, particularly for short-term projects
Current role and years experience of sales management	Sourcing experience	Leiblein & Miller (2003)	Empirical	Seniority targeted in the sampling to ensure breadth and depth of experience	
Control over sales department		Anderson *et al.* (2003)	Comment	Anderson *et al.* (2003) suggested that sales directors have more autonomy than managers of other functions over their resourcing model	

Questions and Prompts	Derived from construct/ concept	Key literature source: Authors/date	Type of study	Notes	Expectations
Challenges in past few years				Open question to act as a broad check on the relevance of the theoretical themes.	Relevance of more than one theoretical theme.
Approach to using third parties	Sales managers prefer their own "empire".	Anderson *et al.* (2003)	Comment	Open question to check for general attitudes.	
Proportion of sales activities delegated to a contract sales organisation or similar third party **Outsourcing depth** % activities outsourced	Propensity to outsource	Gilley & Rasheed (2000) Espino-Rodríguez & Padrón-Robaina, (2004)	Empirical		Majority of companies will do some contracting out, but few will do a lot
Which tasks third party organisations are used for **Outsourcing breadth** Type of activities outsourced (list of options plus other)	Core/peripheral outsourcing	Gilley & Rasheed (2000)	Empirical	Typically, less skilled or less strategic tasks are outsourced.	Non-core sales activities most likely to be outsourced
When sales resourcing decisions are made/reviewed				Recommended by a reviewer to indicate degree of sophistication re management of outsourcing	The more formal the process, the more success.
Process for contracting out a sales task					
Where contractors are used, degree of success		Leiblein & Miller (2003)	Empirical		

Questions and Prompts	Derived from construct/ concept	Key literature source: Authors/date	Type of study	Notes	Expectations
Section B: COSTS					
Sales employees or contractors regarded as cheaper	Cost saving	Kremic *et al.* (2006), based on 210 other studies	Empirical meta-analysis	Noted as main driver of outsourcing.	Contractors should be regarded as cheaper.
How costs are compared				Recommended by reviewer to test degree of knowledge behind previous answer.	
Importance of minimising costs(in general)	Cost reduction	Espino-Rodriguez & Padron-Robaina (2004)	Empirical	Generally associated with efficient business (Groth & Kinney, 1994).	If important, higher propensity to outsource.
To what degree the costs of selling are discussed	Drivers for use of manufacturers' representatives	Anderson (1985) and Anderson *et al.* (2003)	Comment	Assumption in literature that sales costs are increasing.	If high degree, higher propensity to outsource.
Enough information available on which to base cost comparisons between employment and contract options	"textbooks use a simple break-even cost analysis"	Ross *et al.* (2005)	Modelling	Respondents might not wish to admit to limited information.	More information – more outsourcing.
Check if cost leader or differentiated	Simple strategy type: cost leader/ differentiated/ niche	Gilley & Rasheed (2000)	Empirical	Cost leaders using contractors more than differentiated firms.	As per Gilley & Rasheed.
Overall cost of running the sales function: increasing or decreasing	Drivers for use of manufacturers' representatives	Powers (1987); Taylor (1990); Dishman (1996)	Comment	Neo-classical economics.	If increasing, more likely to consider outsourcing.
Overall – are cost considerations having any effect on use of contractors				Recommended by reviewer to assess impact of this factor on changing models.	

Questions and Prompts	**Derived from construct/ concept**	**Key literature source: Authors/date**	**Type of study**	**Notes**	**Expectations**
Section C - CONTROL					
Are sales employees or contractors easier to manage?	Ease of adaptation	Original premise of TCE (Coase, 1937; Williamson, 1975)	Theory-building	Sales specifics: Anderson (1985) Re-used by Krafft *et al.* (2004)	Employees believed to be easier to manage than contractors.
How are comparisons made?				Recommended by reviewer to test degree of knowledge behind previous answer.	
What is the supply market for recruiting salespeople, compared to the availability of contract sales organisations?	Outsourcing risk: Companies should not outsource into limited supply market	Lonsdale (1999)	Case study	Moderating factor with a TCE foundation (contractual hazard)	Supply market for employees expected to be more developed and accessible than market for contractors.
How important is it to monitor the behaviour of salespeople and contractors?	Behavioural uncertainty	Anderson (1985) Re-used by Krafft *et al.* (2004)	Empirical	Where behaviour is uncertain, employment is preferred.	
Are there differences in observance of ethical codes?				Not specifically mentioned in the literature, but relevant in practice, especially in regulated industries.	Also associated with reputation.
What are the implications of dependence on particular employees?	Employee opportunism	Jelinek & Ahearne (2006)	Comment	Authors identified problems with employed SP behaviour.	
What are the implications of dependence on particular third parties?	Lock-in problems with outsourcing	Bahli & Rivard (2003)	Theory-building	Contractors fail to deliver predicted performance.	Concern about lock-in leads to preference for employees.

Questions and Prompts	Derived from construct/ quote	Key literature source: Authors/date	Type of study	Notes	Expectations
Section D - SKILLS					
What are the implications for your skills in managing employees versus contractors?	Outsourcing competence	Daugherty *et al.* (2006)	Empirical	Relationships with contractors need to be highly structured.	The more highly skilled managers are at managing outsourcing, the more it is done.
		Brown *et al.* (2000)	Empirical	Need for managers to focus on relational exchange.	
How many reputable CSOs could you name?	Reps' reputation	Weiss *et al.* (1999)	Empirical	Concern about use of reps and reputation.	Knowledge of good CSOs associated with higher usage.
Comparing the legal framework in the UK for employment contracts versus normal contract law, which is: easier to set up? Easier to change as and when needed? and which is easier to terminate?	Flexibility – ease of exit	Implied in Krafft *et al.* (2004)	Comment	TCE/ RO. Krafft *et al.* (2004) observed that inflexible employment contracts might be a cause of outsourcing. Overlap with Flexibility /real options.	As per Krafft *et al*. (2004).
Are control issues having any effect on use of contractors?				Recommended by reviewer to assess impact of this factor on changing models.	

Questions and Prompts	Derived from construct/ concept	Key literature source: Authors/date	Type of study	Notes	Expectations
Section D - SKILLS					
Are sales employees or contractors most skilled	Rareness of skills	Newbert (2008)	Empirical	General presumption of RBV – rare skills should be insourced.	Highly skilled salespeople employed
		Anderson (1985)	Comment	Skills are the only things that are asset -specific about salespeople.	
How do you compare skills				Recommended by reviewer to test degree of knowledge behind previous answer.	
To what degree is it important within your company to be differentiated from competitors?	Strategic direction	Gilley & Rasheed (2000)	Empirical	RBV	Differentiation associated with insourcing.
How long do you spend on training salespeople (company culture, products, customers)	Transaction specificity of assets	Anderson (1985) Re-used by Krafft *et al.* (2004) with the "cost of training" angle (also Wilson & Zhang, 2002)	Empirical	Time spent on training is an indicator of asset specificity	The more sales training is needed, there will be less outsourcing.
How long do you spend on training contractors (company culture, products, customers)	Time spent on training			Comparison might indicate differences in tasks	

Questions and Prompts	Derived from construct/ concept	Key literature source: Authors/date	Type of study	Notes	Expectations
Section D - SKILLS					
Would customers identify the way you sell as part of your differentiation?	Perceived power and influence of salesperson	Liu & Leach (2001)	Empirical	RBV. Derived from statements from customer's point of view	Differentiated selling should be associated with employed salespeople.
	Perceived expertise of the salesperson	Liu & Leach (2001)	Empirical	RBV. Derived from statements from customer's point of view	
	Rareness	Newbert (2008)	Empirical	RBV – very general statement re-stated for sales specifics	
	Salesperson navigation	Plouffe & Barclay (2007)	Exploratory	RBV	
To what degree are personal relationships between salespeople and customers important to sales success?	Trust of salesperson	Liu & Leach (2001)	Empirical	RBV. Derived from statements from customer's point of view	If the salesperson is a critical resource, he/she will be employed.
To what degree is your approach to selling team-based?	Collaborative skills	Menguc & Barker (2005)	Empirical	RBV approach – Menguc & Barker (2005) discerned that collaboration skills were unique	The more selling is team-based, the less likely it will be outsourced.
To what extent do salespeople get involved in non-selling activity?	Asset specificity	Derived from Anderson (1985) but consistent with Menguc & Barker (2005)	Empirical	RBV (also claimed by TCE)	The more selling involves non-selling, the less likely it will be outsourced.
To what degree does your company's reputation affect use of employees versus contractors?	Own reputation	Weiss *et al.* (1999)	Empirical	Concern about use of reps and reputation.	The more concern about reputation, the more likely that salespeople will be employed.

Questions and Prompts	Derived from construct/ concept	Key literature source: Authors/date	Type of study	Notes	Expectations
Section D - SKILLS					
To what degree is it important for your company to conform to the norm for your industry/supply chain in terms of how your sales department in organised?	Isomorphism	DiMaggio & Powell (1983)	Theory-building	A moderating factor, or negation of RBV	If competitors do not outsource, companies will not adopt it themselves.
	Strategic conformity	Deephouse (1996)	Empirical	Moderating factor – the need to conform to industry norms, which negates RBV	
When a salesperson leaves the company, which skills set is missed the most (by you): Selling skills, product knowledge, knowledge of company culture and procedures, knowledge of the customer, working relationships with colleagues.	Transaction specificity of salesperson's skills	Anderson (1985) – skills are the only aspect of specificity in selling	Empirical	Anderson specifically tested for company culture, product knowledge and customer knowledge.	Some combinations of skills more valuable than others. Selling skills per se will be associated with higher level of outsourcing.
	Rent generating skills	Menguc & Barker (2005)	Empirical	Examination of the value of selling skills and working relationships with colleagues.	
When a relationship with a contractor is terminated, which skills set is missed the most (by you):		As above	As above	Equivalent question, rooted in the same literature.	High level of selling skills associated with contractors.
Are skills issues having any effect on your use of contractors?				Recommended by reviewer to assess impact of this factor on changing models.	

Questions and Prompts	**Derived from construct/ concept**	**Key literature source: Authors/date**	**Type of study**	**Notes**	**Expectations**
Section E - FLEXIBILITY					
Do employed salespeople, CSOs, or a combination give you more flexibility when you are making resourcing decisions?	Flexibility	Brouthers *et al*. (2008)	Empirical	Firms need portfolio approach.	Combination preferred.
Please describe to what degree you feel that you need internal and external options for resourcing the sales department to adjust to change.	Flexibility	De Leeuw & Volberda (1996)	Theory-building	Real options; also relates to managerial competence with outsourcing	Options desirable.
How important is it to competitiveness to increase and decrease activity without disproportionate increases in costs?	Flexibility - robustness	Sia *et al.* (2008)	Empirical	Real options; General statements adapted for sales specifics	Need to flex will lead to higher proportion of outsourcing.
	Flexibility as a capability	Jack & Raturi (2002)	Empirical	Statements about production adapted for sales specifics.	

Questions and Prompts	Derived from construct/ concept	Key literature source: Authors/date	Type of study	Notes	Expectations
Section E - FLEXIBILITY					
How quickly can you implement change?	Flexibility as a capability	Jack & Raturi (2002)	Empirical	Real options; Statements about production adapted for sales specifics	Faster implementation associated with higher use of outsourcing.
	Flexibility as a capability	Rese & Roemer (2004)	Theory-building via scenario	Being responsive to markets.	
What is your experience of employed salespeople to third parties helping you to accelerate change?	External/internal comparisons	Martinez-Sanchez *et al.* (2007)	Empirical	Both internal and external flexibility associated with better performance.	Evidence of both.
What is your experience of employed salespeople to third parties helping you to avoid financial risk?	Multiple sourcing	King (2006)	Case study	Availability of other models encourages financial flexibility of all suppliers.	Limited evidence.
Are flexibility issues having any impact on your use of contractors?				Recommended by reviewer to assess impact of this factor on changing models.	

Questions and Prompts	Derived from construct/ concept	Key literature source: Authors/date	Type of study	Notes	Expectations
Section F - PERFORMANCE					
In deciding how to resource a sales task, how would you prioritise cost, control, skills and flexibility?				Suggested by a reviewer of the questionnaire to ensure discernment between factors.	
Closed questions					
Performance on sales revenue	Sales revenue growth	Colletti & Chonko (1997)	Comment	A common point of reference for sales managers.	Better performance on revenue growth – more outsourcing
Performance on control of sales-related overheads	Return on sales (typical of financial performance measures used in empirical studies).	"Profitability" (Menguc & Barker, 2005; Newbert, 2008) and "Return on sales" (Gilley & Rasheed, 2000).	Empirical	Colletti & Chonko (1997) used for sales specific performance criteria	Better performance on cost control – more outsourcing
Performance on product launches	Product innovation	Product innovation used by Gilley & Rasheed (2000) as performance indicator	Empirical	Colletti & Chonko (1997) used for sales specific performance criteria	Better performance on product launches – more outsourcing

Questions and Prompts	Derived from construct/ quote	Key literature source: Authors/date	Type of study	Notes	Expectations
Section F - PERFORMANCE					
Performance on customer retention	Market share	Market share - Performance indicator used in Newbert (2008)	Empirical	Colletti & Chonko (1997) used for sales specifics	Better customer retention – less outsourcing
Performance on improving share of wallet in customers	Market share	Market share - Performance indicator used in Newbert (2008)	Empirical	Colletti & Chonko (1997) used for sales specifics	Better share of wallet – less outsourcing
Performance on salesperson retention	Employmen t stability	Gilley & Rasheed (2000)	Empirical	Colletti & Chonko (1997) used for sales specifics	Better salesperson retention – less outsourcing
Performance on customer advocacy	Customer satisfaction	Menguc & Barker (2005)	Empirical	Customer advocacy popular in practice as a performance measure – Net Promoter Score	Better customer advocacy – less outsourcing
Performance on winning new customers	Market share	Market share - Performance indicator used in Newbert (2008)	Empirical	Colletti & Chonko (1997) used for sales specifics	Better market share – more outsourcing
Performance on responding to change		Fredericks (2005)	Conceptual	Expectation that responding quickly to change will improve performance.	More responsive – more outsourcing
Performance on managing third parties		Díez-Vial (2007)	Empirical	Correlation between capability to manage outsourcing and success	Better management of CSOs, more outsourcing

APPENDIX B

SERRULA

SERRULA RESEARCH LTD

About Serrula Research

Serrula Research is a full-service market research and consultancy firm.

It specialises in detailed business-to-business projects, especially for the financial, medical and technology sectors. Serrula Research also provides back-office services to support industry-specialist work.

Formed in 2006, Serrula Research is based in Spitalfields, central London.

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APPENDIX C

INVITATION TO PARTICIPATE IN SALES MANAGEMENT RESEARCH

From: Serrula Research Limited

On behalf of: Beth Rogers, Principal Lecturer in Sales Management, University of Portsmouth Business School, and author of "Rethinking Sales Management"

Portsmouth Business School is the leading business school for sales education in the UK. Beth Rogers, Principal Lecturer in sales management at Portsmouth Business School, is conducting some research on resourcing decisions in sales and we are writing to you to invite your opinions on this topic. The focus of this research is on the use of third party organisations to replace or augment the effort of sales employees in achieving revenues for companies. Their activities might include merchandising, lead generation and qualification, product launches, managing market segments with low volume requirements, managing end of life products, managing particular territories, coverage for extended leave e.g. sick leave, maternity leave or for general staff shortages, post-sales follow-up or sales team support.

We invite you to participate in this research through an interview that needs at least 45 minutes, but we would be grateful for more time if you can give it. This research is about your views and experiences, rather than a discussion about company policy. In return for your time, you may opt to receive an executive summary of the research and/or a £20 donation to a charity of your choice.

We very much hope that you will be able to help us in this study.

This invitation letter will be followed up by a telephone call from Serrula Research Limited, who will explain the process and book an interview, should you agree to participate. You may request to see the questions in advance, and you may withdraw from the process at any time. We do request that if you do not wish to take part, or wish to withdraw at a later stage, that you explain your reason, as that is also important to this research.

If you have any questions please contact us, or if you wish to contact the researcher directly at any time, her contact details are beth.rogers@port.ac.uk, telephone 02392 844017.

Serrula Research abides by the code of conduct of the Market Research Society.

Appendix D

Response information

Response summary and reasons for non-participation

Hi Beth,

Here are the stats and contact details on the spreadsheet attached. Eight people haven't stipulated their chosen charity but they have all been emailed and they know to contact Patricia and tell her where to donate.

The final total is:

INTERVIEWS COMPLETED: 32

Researcher note: 2 tapes unusable, 1 interview with non-target contact.

PILOT INTERVIEWS: 5 (researcher note: within the 32)

'ACTIVE' REFUSALS: 62 (researcher note – most by phone, 13 emails below)

'PASSIVE' REFUSALS: 137

Refusal e-mails:

1. apologies for letting you down, work commitments are a priority.
2. Hi Victoria, I am very sorry but we do not have time in our busy working day to spend 45 minutes on the telephone responding to a survey.
3. Thank you for your e-mail. I am afraid no-one is available to participate in your project.
4. Hello Victoria, I am afraid the relevant person made a decision and he said this would not be relevant to our organization.
5. Victoria, I am not interested to participate.

6. Hi Victoria, Thank you for the invitation and hope the project goes well. However, we will not be participating in this study.

7. Dear Victoria, Thanks for this information however xxxxx does not wish to partake

8. Apologies Victoria. I am currently off work after being involved in a bad motorway accident.
   I don't know how long I will be away but don't feel up to this just now.
   Sorry to let you down.

9. Victoria, I do not have 45 minutes to spare I'm afraid.

10. Many thanks but I am not interested in taking part.

11. Hello Victoria, I think on this occasion we will have to give it a miss.Best of luck with the study and feel free to get in touch next year if you do a follow up study.

12. Dear Victoria, Thank you for your email (copy below). I regret that I will not be available to participate in this study as this time of year is extremely busy and, at present, I cannot allocate 45 mins+ for this purpose

13. Hello Victoria! Hope you are doing well. We have just received an answer and unfortunately xxxx is unable to participate. He thanks you so much for the invitation anyway.We wish you the best with this project.

APPENDIX G

Interim consultations with respondents

November 2011

Interim thoughts on contract sales resource research

Dear Respondent

Thanks again for your contribution to this research. We are about three quarters of the way through the data gathering, and one third of the way through the data analysis. To keep you in touch, here are my preliminary thoughts on emerging trends. Doubtless you will feel that some are "glimpses of the blindingly obvious", but I hope that others will be thought-provoking!

Best wishes

Beth Rogers

Compared to the outsourcing boom in most functions in businesses, there is relatively little outsourcing of sales activities. Nevertheless, the sales resourcing models explored in the study so far vary from 0% outsourced to 100% outsourced, with a number of mixes. The theoretical drivers of outsourcing, which include the desire for lower costs and greater flexibility (making fixed costs variable), do affect the sales function, but it would appear that the intensity of these factors are moderated. There is also a case that in many contexts, insourced can be cheaper and more flexible, especially in the long-term. Because salespeople interface with customers, the drivers for insourcing, primarily protection of core skills and close control over their deployment, appear to be strong.

In general, it appears that contract sales providers need to "up their game" if they are to impress sales managers. However, it is possible to find very professional and highly skilled providers of sales services. They can be used to fill capability gaps (out-tasking) in the short-term and the long-term. The contexts in which contract sales are most used, and are therefore sometimes considered to have superior skills, are: lead generation, account management of low value customer segments or difficult to serve territories, and to a lesser degree, administrative support within the sales function. Typically, these are activities that in-house salespeople might not consider priorities, or find it difficult to do properly because of pressure on their time. In some B2B segments, all customers are quite large and sales cycles are quite long. Sales managers working in this context are most likely to prefer to employ salespeople – the more complex the activity, the more difficult it is to contract it out. Nevertheless, it is possible to have a contractor playing a role in an account team, either because of some specialist knowledge that is needed, absence coverage, or for support purposes.

Analysis of general outsourcing literature suggests that cost is a dominant factor in choosing third parties to run functions like information technology, logistics, facilities management, human resource management or some aspects of manufacturing. In the case of the sales function, many sales managers have a detailed command of the cost of sales resourcing options, and the return on investment in terms of sales outcomes and other key performance indicators. There is no clear message to report as yet – some companies do the calculations and find that contractors are cheaper; others find that in-house is cheaper. The amount of time over which costs are compared is a factor, but the variations in results underlines how much sales resourcing contexts can vary from firm to firm. This advantage of converting fixed costs to variable costs is considered shortly. Regardless of cost advantage, most respondents so far have considered other factors more important when making resourcing decisions.

Economic theory acknowledges that cost/price comparisons should be modified by the cost of controlling third parties, which is usually assumed to be higher than the cost of controlling in-house staff, who are expected to have allegiance to the organisation. Outsourcing may create issues of dependency on an external firm (lock-in). Many studies have showed that wherever a firm is particularly differentiated or offering customised products or services, employed salespeople are likely to stay with firms for some years, and can be developed to the high skills levels necessary. The literature that critiques the theoretical norm points out that employed staff can be challenging and costly to manage, and in some countries, the obstacles to termination of employment contracts reduce a manager's degree of control. Also, third parties might be quite dependent on their clients and very willing to enter into "partnership" agreements and vary terms at short notice.

Apart from individual "temp" situations, outsourcing a sales activity involves outsourcing the management of the behaviour of the representatives/agents. Most companies endeavour to engage their suppliers in their own approach to behavioural control (such as coaching to key performance indicators). It is clear that where contractual control has been difficult, relationship management has not been workable either, and suppliers or agents have disappointed. Therefore, where success has been achieved with using third parties, detailed attention has been given to contract terms, measuring and monitoring (not just sales outcomes, but quality factors as well), and on-going management of the business relationship. While the number of contract sales organisations is growing, both according to trade directories and sales managers' awareness of them, sales managers are still unconvinced about the quality of the majority. There needs to be careful discernment to ensure that highly organised, highly professional organisations are identified.

In the 1990s, a theory about the importance of options emerged. This reflected organisations' need to change resourcing quickly in response to changing market conditions. Converting fixed costs to variable costs would be desirable, and tactical opportunity seeking should be part of the management portfolio. Tactical use of contract sales organisation for particular product launches or marketing campaigns has been useful to some companies. This is a very typical use of contract sales in the pharmaceutical industry, where speed to market once a product has been listed is critical.

Flexibility may be a desirable thing, but theory and practice have changed over time on the subject of whether make or buy provides it. In the early part of the 20^{th} century, vertical integration of firms was popular, in the latter part of the 20^{th} century firms outsourced to avoid bureaucratic atrophy. In the past few years, it is clear that employed salespeople have responded to the economic conditions by adapting more readily to the changes that employers have needed. That increased flexibility and productivity does not necessarily preclude the use of contract sales organisations for particular tasks, but it has confined the use of third parties, in most cases, to tactical activity.

Besides cost, control and flexibility, we asked you about skills and competences. In the academic literature, selling skills are a commodity, and it is the product-specific, company-specific and customer-specific knowledge of salespeople that makes them valuable to both their customers and their employers. It seems most sales managers would agree with that. Increasingly in B2B sectors, consultative selling, team selling and account managers' involvement in non-sales activities make the "sales role" a very variable and creative one. It is also regarded as a "core competence", i.e. strategic. For many sales managers, this is the critical factor – the highest levels of skills are those that are developed internally (in-house salespeople are investments and receive a lot of training and development), and customers would expect the "brand ambassador" of the supplier to be employed by them. This argument is compelling at a high level, but deserves some further analysis.

If the "core competence" approach is applied at a granular level (and notably this has been successful in other business functions drawing back from complete outsourcing, such as IT), there are still questions to ask about skills gaps in the sales function. With the purchasing profession's passion to commoditise, many supplier-customer relationships remain transactional – where are the best transactional selling skills? Could good salespeople be even more productive if some of their weak areas in the sales process were channelled to contracted support? Could specific market skills gaps be met by specialist sales agents or "temps"? This brings us back to "out-tasking", which is the most frequently occurring model in the research so far.

Clearly there is more in-depth analysis to be done, but in the meantime I hope this is of interest. Please do not hesitate to contact me if you have any questions:

January 2012

Further interim thoughts and some soapbox moments

Dear Respondents,

Happy New Year!

I have now completed first and second level coding of the interview data. Although there is more to be done, I felt it was useful at this point to share some more findings and interpretations (and speculations), and enable you to comment on them. I apologise that some previous themes from my last update have been repeated. By drawing in more detailed observation, prior research and recent trends in this document, I hope this document sheds more light on them.

First of all, let me explain the nature of the dataset. Hundreds of comments have been gathered about sales leaders' perceptions of the "make or buy" options in sales resourcing (predominantly employed salespeople versus contractors or services from contract sales organisations or similar third parties, but also encompassing channel options such as dealers, and comparing third party with internet options). As you will recall from the interviews, the themes identified from prior research on "make or buy" suggested that cost, control, skills and flexibility were relevant drivers in resourcing decisions. This was consistent with prompted and unprompted comments about resourcing challenges – getting the right skills, pressure for greater productivity, change management and motivation were all mentioned, and mentions were fairly equally spread.

Finding or developing sufficiently sophisticated sales or account management skills remains difficult, even during a recession. The UK Sales Board reported in 2008 that 59% of employers observed a skills gap in sales, especially for senior account management or sales management positions. This structural fault in the UK employment market seems to be persistent. Are there any potential solutions? External to this dataset, research and emerging selling models provide some options for improving sales productivity and up-skilling (see below).

It is worth re-stating the situation that most sales managers face: achieving targets on reduced budgets, at a time when most selling situations in B2B are becoming more complex. Respondents were generally very confident about competitive strengths in customer retention and share of purse, but less so about launching new initiatives and productivity, which is quite logical in the current economic climate.

Most respondents have expressed views consistent with the "resource based view" theory, i.e. that competencies that support company differentiation are "core"; other tasks are non-core. As such there is evidence of a pragmatic granular approach to sales resourcing. Sales managers consider different resourcing options based on:

- Different customer types, with segmentation by industry sector, company size, territory and buying approach
- Different stages in the sales process
- Different stages in the product life-cycle

Third parties are predominantly used where selling is less complex, where they might have more focused selling skills, or where they might know the customers better than their client could. Using third parties to focus on opportunity development before bringing a new product or segment in-house seems to be a popular theme. Bearing in mind "resource based view" ideas about creating competencies from doing things differently, there is plenty of potential in resourcing models to design new routes to effectiveness which can accommodate diverse channels and a cultural focus on "the way we sell". Most respondents were willing to be different about "the way we sell", showing little concern for "industry norms" , but there was less confidence about whether customers would recognise "the way we sell" as a differentiating advantage.

Maximising contribution from all parts of the sales portfolio

Less complex (usually end of life products and SME sector, but also large-scale transactional sales)

Case histories provide arguments for improving sales productivity via electronic channels. Dow's web spin-off, Xiameter, was very successful for them. It shifts the skills emphasis to fulfilment and user-friendly portals. Dow is also active in e-marketplaces. Because of costs per sale, many companies are trying to shift at least more of the sales process on-line, such as providing information, demonstrations, endorsements and initial communications. The aim of this is to maximise the productivity of more expensive telephone and face-to-face contact. Where products or services are not suitable for on-line trading, shifting from field sales to telephone sales has also been evident over the past ten years.

Focused skills

Telesales has also provided many companies with improved productivity. It is one of the aspects of selling where many sales managers perceive that there are reputable contract sales organisations with focused telephone selling skills. These CSOs take pride in developing benchmarked competitive skills and retaining skilled staff. However, specific performance criteria, encompassing both outputs and expected behaviour, need to be part of the contract. Many respondents mentioned very detailed output comparisons, but there were no common indicators. In the pharmaceutical sector, the independently-run "detailed follow-up" research gives clients a common benchmark for quality control over employees and contractors in the field; call monitoring is common in employed and contracted telesales. In fairness to the contractors, they also need relevant information, training and support in order to fulfil their obligations. The relationship with the contract organisation also needs to be managed pro-actively, sometimes by project managers rather than sales professionals.

Usually, contractors (telesales and field sales) are engaged on product launch campaigns, developing new territories or segments and other types of lead generation, absorbing risk for their client and prepared at fairly short notice to hand the business back in-house or terminate the project.

Longer-term use of third parties

Telephone account management of smaller customers is also a task which may be outsourced, but where it is sensible for a third party to at least partly own the relationship with the customer, dealers, agents, resellers and joint ventures are also available choices. These third parties are particularly attractive where they have industry-specific, segment-specific or customer-specific knowledge. This is quite obvious in export markets where language, local business culture or local government regulations make local organisations desirable long-term partners, but may also apply to new segment opportunities in established markets.

However, dealers and resellers are often working with competitors too, so motivation needs vigilance. The “manufacturers’ representative” model of sales agent in the USA is an interesting alternative. They contract with only one client at a time, offering their products together with complementary products and services within a geographical area where they know customers very well. Some sales agents, or complementary producers willing to JV, could provide something similar. The trade-off when working with independent companies in the long-term is control. Where this is a regular aspect of the business, specialist channel managers are usually in place.

Referring back to this data-set, when it comes to transactional selling skills, many respondents have found reliable third parties where selling skills are available and quality can be monitored, and some reported that availability of third party organisations is improving. Assuring relevant product knowledge and understanding of company values has been achieved. With a possible chicken and egg effect, on average contractors get much less induction and training than employees. Typically their engagement is short-term which justifies that position. There are also examples of long-term arrangements with third parties where equivalent quantity of training is provided, but perhaps with cost-driven variations in delivery mode (e.g. on-line) and time restrictions.

Core business

Despite the availability of various types of contract staff and organisations, many respondents expressed a preference for employed staff (and for some companies, it is a cultural preference for all categories of staff). They are perceived by most respondents to be more skilled, easier to manage and more cost-effective in the long-term. In recent years, employees have been more willing to embrace change. Nevertheless, many respondents commented on imperfections in the recruitment market (including the availability of suitably skilled candidates), and the constant challenge of maintaining motivation when there are frequent changes in the organisation.

Recruitment

Where more a more sophisticated portfolio of skills is required, the first challenge is recruitment, which can be an expensive and lengthy process. Some companies might address this by broadening their search, to different countries, or attracting candidates from a wider choice of background. Others might deepen their search, by sticking to required qualifications and experience and meanwhile using "temps". Some sales managers are willing to plug specialist gaps, e.g. sector-specific knowledge and contacts, with freelancers or "temps" from agencies, or "temp view to perm" for periodic vacancies. The availability of highly skilled temps is often associated with recessionary conditions. Notably, for companies who are not well-known employer brands, or where development time for a particular project is limited, contract staff or "temp view to perm" can be an effective way to gain access to skilled account managers.

A soapbox moment...

This is where, as a sales educator, I feel obliged to speculate. Specifying a preference for qualifications mapped to the National Occupational Standards for sales, or having done a sales option at university, would be a helpful filter, ensuring that candidates with a commitment to sales best practice applied. If employers keep ducking the qualifications issue, there will always be an incentive for salespeople to avoid studying for their vocation. I appreciate that it would put off the majority who are unqualified, and we are where we are with an imperfect recruitment market.

With no particular grounding in this data set, although there is some evidence for it in my previous research and an event with the local JobCentrePlus, general improvements in skills levels might be achieved by focusing on recruiting for evidence of thinking skills and general business acumen, rather than sales experience. Communication skills and negotiation skills can be taught, and if they are in the context of relationship management and consultancy-style selling rather than the manipulative techniques most non-salespeople fear, a wider portfolio of candidates might be attracted to vacancies.

Training and development

Consideration is also given to how to stretch existing achievers further. In a recession, many people work harder for less reward. Even if this recession is a long one, it would be unwise to rely on this continuing indefinitely. Respondents reported considerable investment in training and staff development, often mapped to robust competency frameworks. Interestingly, sales training is a "support" activity within the sales budget that is frequently outsourced. There is a great deal of interactive on-line training becoming available, and on-line coaching to help reinforce it, so there are new ways of "up-skilling" with reduced cost and risk. In particular on-line coaching is an interesting angle – research-based packages focusing on helping salespeople to maintain their intrinsic motivation seem worth investigating, especially for sales managers with large numbers of reporting staff. I must declare a (non-financial) interest as one of my teaching team is a sales psychologist who developed one of them!

Another soapbox moment...

Training offerings that involve assignments (for proof of learning), and enable trainees to acquire sales qualifications, might ensure greater return on investment for the employer and the employee.

Sales support options

There is another approach to stretching existing achievers further. Many respondents report salespeople getting involved in non-sales activities. Some of this is necessary, such as the negotiations with colleagues within the organisation on topics such as process alignment with customers. Nevertheless, salespeople often complain about administration and having a constant battle with emails. A new niche is appearing in third party sales support offerings: the virtual personal assistant. Such services are focused on relieving individual salespeople of their administration and communication overheads. However, I have also noted requests from employers for placement students to act as information-gatherers and progress-chasers within account teams. "Desk account management" by junior staff may enable more thinking time for key account managers to come up with ideas to take to customers.

Third parties are also used to enhance account teams when specific technical skills are needed, but this is usually outside of the sales manager's remit.

Change

Productivity of current staff also links to discussions about flexibility and change management. Relatively few respondents reported stable economic conditions in their market, and although there were more examples of recent downsizing versus upsizing, in the case of upsizing, the limitation of risk and speed to market offered by contract sales organisations was clearly attractive. Some respondents praised particular contract sales organisations for their speedy implementation of project briefs, and their ability to change or terminate projects quickly. This actually runs contrary to theory, which is very supportive of employees as more flexible than contractors, but on the basis of a rather unrealistic (1937!) assumption of "master-servant" relationships. Few respondents thought that modern day employment contracts are comparatively easy to change or terminate, although the situation is better in the UK than some other EU countries. Use of third parties seems to be positively associated with effective access to new markets, and both short-term and long-term arrangements have been successful.

New resource models to realise growth was mentioned as a challenge, but not so much as change and restructuring necessitated by the difficult market conditions of the past few years. Can the process of change be accelerated by the deployment of contractors? A few respondents noted that bringing people in with different experiences and viewpoints can have an energising effect, but like all resourcing change, it has to be carefully managed, especially after downsizing.

Control

Although respondents were clear about their understanding of contractual and relational management of third parties, it was also clear that loss of control is a major inhibitor to increasing use of third party options. Some contract sales organisations, like those in the pharmaceutical sector, can offer a variety of models that might be reassuring, but others are clearly organisations with their own priorities, which may change in a way that eventually damages the relationship. However, some respondents found that contractors were easier to control than employees, because contracts are usually short and specific.

Respondents explained that managing third party relationships involves very different skills from managing employees. Sales managers who enjoy the personal involvement of leading their team of directly reporting staff might feel that managing contract organisations is more like being a purchasing manager managing suppliers. In larger organisations, specific relationship managers, channel managers or project managers are in the sales team.

Costs

The sales function may be less of a target for cost control than a "back-office" function, but the cost of selling is a matter for discussion in many companies. The majority of respondents were working in companies focused on differentiation rather than cost leadership. Nevertheless, achieving a financial return on investment over a reasonable time period is important, and many respondents had impressive statistical evidence. I now wish I had asked about "balanced scorecard" to explore the relationship between shareholder value metrics and metrics oriented to other stakeholders, especially customers (many respondents reported customer satisfaction as a behavioural metric). If anyone is doing that to evaluate their sales department – please let me know!

In conclusion

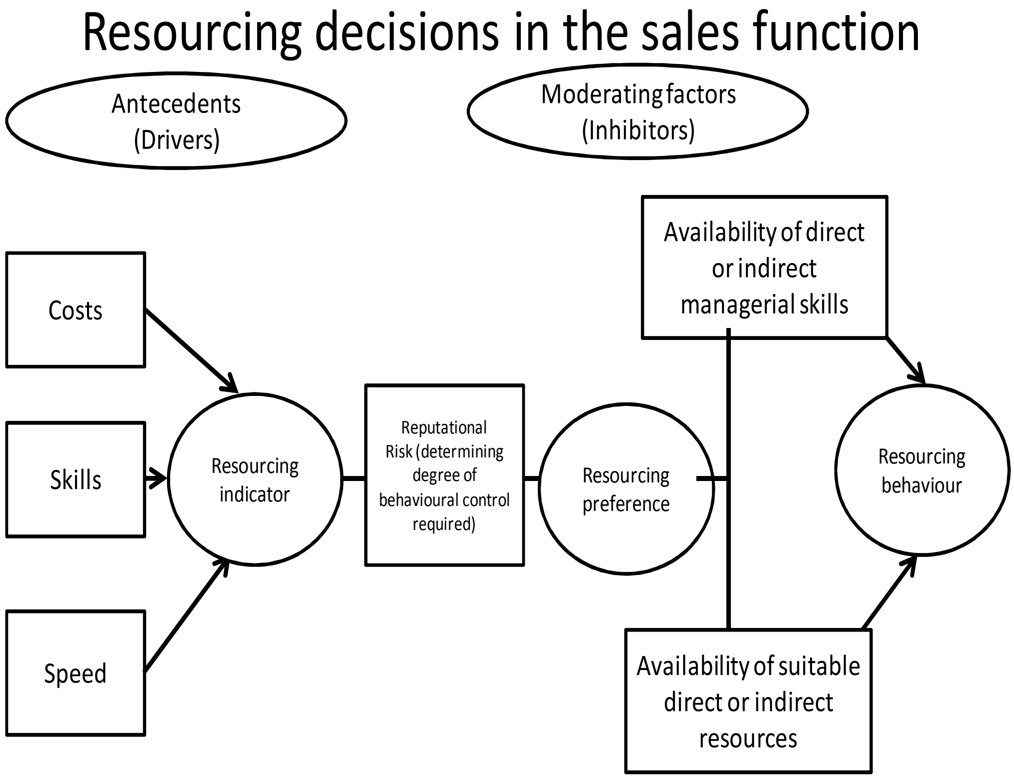
Sales directors and managers get little strategic slack when it comes to matching the right resource to the right opportunities. The supply market still needs developing, both for employees and third party options, but choices are widening. Resource-based view theorists would argue that difficult-to- imitate models that optimise a benefit to customers, such as quality of the sales experience or convenience, will deliver superior "rent" (returns) to the company.

Your comments and questions about this document are very welcome.

Regards

Beth

A proposed model for resourcing decisions in the sales function



This model is the end result of this research study. The study set out to achieve a model of the use of contract sales organisations based on the experiences of senior sales managers. By exploring the comparison of contract sales organisations with employed salespeople, it has discussed the factors which may affect all resourcing decisions in the sales function.

The model starts with drivers (antecedents in the "academic dialect") to seek new or alternative resources. Respondents to this study saw either the pursuit of lower costs, the acquisition of particular skills or the need for speed of response to market conditions as the most important factor for them in sales resourcing. Any of these might trigger a comparison between resourcing options. Depending on context, direct employment, contracting out or a new model (e.g. on-line) could be the appropriate answer.

Control of resourcing was not expressed as a priority by anyone, leading the researcher to the conclusion that its real role in the decision making process is as a moderating factor. The roots of the control construct were difficult to discern, but since many references were made to quality, the need for behavioural control and the need to avoid dependence, it seemed that reputational risk might be the real root cause.

Control often factored out contractors, but even if it did not, there were two other factors. One was the availability of suitable employees or contractors, and the other was whether the skills set of sales managers was geared towards coaching employee performance or managing through third parties, which was distinguished as a very different skill, often undertaken by a dedicated person. After these are taken into account, a pragmatic solution emerges.

APPENDIX J: Additional Nvivo classification sheets

i) List of transcripts and references

Type	Memo Link	Nodes	References	Created On	Created By	Modified On	Modified By
Document	Yes	131	180	30/09/2011 13:29	BR	04/11/2011 14:52	BR
Document		141	266	01/11/2011 17:49	BR	02/11/2011 07:17	BR
Document	Yes	146	281	10/10/2011 16:07	BR	27/10/2011 11:16	BR
Document	Yes	132	195	30/09/2011 13:30	BR	07/10/2011 15:42	BR
Document		143	219	08/11/2011 06:58	BR	08/11/2011 07:58	BR
Document		137	221	08/11/2011 17:17	BR	08/11/2011 18:04	BR
Document	Yes	142	193	27/10/2011 09:56	BR	27/10/2011 11:16	BR
Document		142	198	27/10/2011 10:00	BR	27/10/2011 10:00	BR
Document	Yes	142	197	30/09/2011 13:32	BR	07/10/2011 15:42	BR
Document	Yes	149	267	22/09/2011 09:00	BR	07/10/2011 15:42	BR
Document	Yes	157	281	30/09/2011 13:33	BR	07/10/2011 15:42	BR
Document	Yes	143	234	30/09/2011 13:34	BR	03/10/2011 09:36	BR
Document	Yes	138	225	30/09/2011 13:25	BR	10/10/2011 16:19	BR
Document		147	250	08/11/2011 06:59	BR	08/11/2011 07:58	BR
Document		149	231	08/11/2011 07:00	BR	08/11/2011 08:13	BR
Document	Yes	132	186	30/09/2011	BR	27/10/2011	BR

				13:27		14:47	
Document	Yes	119	180	30/09/2011 13:26	BR	27/10/2011 15:48	BR
Document	Yes	131	190	30/09/2011 13:35	BR	27/10/2011 15:48	BR
Document		136	210	08/11/2011 17:18	BR	08/11/2011 18:04	BR
Document	Yes	144	198	07/10/2011 08:39	BR	27/10/2011 15:48	BR
Document		144	232	11/11/2011 15:35	BR	11/11/2011 16:07	BR
Document	Yes	122	180	30/09/2011 13:27	BR	01/11/2011 18:19	BR
Document	Yes	131	173	30/09/2011 13:37	BR	12/02/2012 14:31	BR
Document		132	168	30/09/2011 13:47	BR	02/11/2011 07:47	BR
Document		149	297	11/11/2011 15:36	BR	11/11/2011 16:36	BR
Document	Yes	135	212	30/09/2011 13:28	BR	01/11/2011 18:04	BR
Document	Yes	145	236	23/09/2011 11:45	BR	01/11/2011 07:54	BR
Document	Yes	129	191	27/10/2011 09:58	BR	01/11/2011 07:40	BR
Document	Yes	127	173	27/10/2011 09:57	BR	27/10/2011 16:14	BR

ii) First level of coding

Name	Memo Link	References	Created On	Created By	Modified On	Modified By
Open codes		0	03/10/2011 09:51	BR	03/10/2011 09:51	BR
Tree Node	Challenges	28	32	23/09/2011 11:37	BR	25/12/2011 11:08
Tree Node	Control	29	103	23/09/2011 11:43	BR	25/12/2011 11:08
Tree Node	Costs	29	136	23/09/2011 11:39	BR	25/12/2011 11:09
Tree Node	Flexibility	29	83	23/09/2011 11:40	BR	25/12/2011 11:22
Tree Node	Prioritisation	27	27	23/09/2011 11:42	BR	28/12/2011 14:49
Tree Node	Skills	29	140	23/09/2011 11:41	BR	25/12/2011 11:12
Tree Node	Use of third parties	29	53	23/09/2011 11:38	BR	25/12/2011 11:12

iii) Classification of challenges

Name	Memo Link	References	Description
Challenges		32	How the respondent describes the challenges they face at the moment.

Type	Name	Sources	References	Description
Tree Node	growth related	5	5	Respondents citing challenges associated with revenue growth, or lack of it.
Tree Node	motivation	12	15	Respondents citing their current challenge as motivating salespeople (or contractors).
Tree Node	cost control	8	12	Respondents citing cost control as a current challenge.
Tree Node	availability of skills	12	13	Respondents citing availability of skills as a current challenge.
Tree Node	changing resource model	12	15	Respondents citing changing resource model as a current challenge.

iv) Use of third parties

Name	Memo Link
Use of third parties	

Type	Name
Tree Node	Measurement
Tree Node	Speed of response
Tree Node	Risk management
Tree Node	Trust
Tree Node	Evaluation process
Tree Node	Company culture
Tree Node	Product and industry knowledge
Tree Node	Review
Tree Node	Degree of success

Type	Description
Tree Node	Comments indicating that success had been achieved using third parties.
Tree Node	Comments indicating lack of success with third parties.
Tree Node	Neutral comments about success or failure with contractors.

Tree Node	Suppliers		
Tree Node	Trends		
Tree Node	Attitude	70	How respondents described their general

			attitude towards outsourcing sales activities.

Type	Sources	References	Description
Tree Node	14	36	
Tree Node	16	26	
Tree Node	6	6	

Tree Node	Type of use	0	Tasks that have been outsourced

Type	Sources	References	Description
Tree Node	7	7	Specific comments about resourcing key accounts.
Tree Node	4	4	Using third parties for sales support activities.
Tree Node	6	11	The role of third parties in covering particular territories.
Tree Node	9	12	Specific comments about resourcing lead generation.

v. Coding of the cost responses

Name	Memo Link	Sources	Description
Costs		29	Comments made by respondents about the relative costs of employment versus contractors.

Type	Name	Memo Link	References	Description
Tree Node	Sales productivity		65	Comments about sales productivity
Tree Node	Budget setting		28	Comments about how the sales budget is set.

Type	Name	Sources	References	Description
Tree Node	Budgeting	24	26	Respondents comments about budgetary control.

Tree Node	Economic conditions		4	Comments about the economic climate and its effect on cost control.
Tree Node	Contractors cost advantage		21	Comments about the cost advantages of contractors/contract sales organisations.

Type	Name	Sources	References	Description
Tree Node	Cost comparison	8	13	Comments about direct cost comparisons.
Tree Node	Efficiency	2	4	Comments about the relative efficiency of contractors.

Tree Node	Headcount	4	5	Comments about the necessity to reduce headcount.
Tree Node	Speed	2	3	Comments suggesting that it is speed of deployment that results in lower cost.

Tree Node	Employees cost advantage		29	Comments about the cost advantages associated with employees.

Type	Name	Sources	References	Description
Tree Node	Efficiency	6	6	Employees deliver better results.
Tree Node	Quality leads to lower costs	6	6	View that the quality of employees leads to lower costs.
Tree Node	Control	6	6	If you have control over the resource, you have a cheaper resource.
Tree Node	Cost comparison	5	5	Employees cheaper on direct comparison.

Tree Node	Importance of cost control (general)		84	Comments about how the organisation approach cost control in general.

Type	Name	Sources	References	Description
Tree Node	Cost control very important	23	31	Respondetns reporting strong feelings about cost control.

Tree Node	Degree to which sales costs are discussed		35	Comments about how much the cost of selling is a matter for discussion in the company.

Type	Name	Sources	References	Description
Tree Node	Frequent discussion	18	18	Where sales costs are a matter of frequent review.
Tree Node	Not high priority	11	12	Where sales costs are not frequently discussed or a matter for concern.

Tree Node	Influence of cost on use of contractors		27	Whether or not cost issues influence the use fo contractors (for or against).

Type	Name	Sources	References	Description
Tree Node	More use of contractors	5	5	Cost driving more use of contractors.
Tree Node	Less use of contractors	6	6	Cost driving less use of contractors.

Tree Node	Availability of information re resource options		33	Comments about cost information available on resourcing options.

Type	Name	Sources	References	Description
Tree Node	positive	8	8	
Tree Node	negative	20	21	

Tree Node	Cost of sales resource - trend		28	Comments about trends in costs of the selling function.

Type	Name	Sources	References	Description
Tree Node	Decreasing	12	12	Sales costs going down.
Tree Node	Increasing	8	9	Sales costs going up.
Tree Node	Static	7	7	Sales costs staying the same.

Tree Node	How costs are compared		45	Comments about how the relative costs of sales resourcing optiosn are compared.

Type	Name	Sources	References	Description
Tree Node	Value	1	1	Arguments for wider considerations than price.
Tree Node	Business case examples	22	26	Respondents describing business cases for resourcing decisions.
Tree Node	Supplier comparisons	2	3	Where alternative bids are considered.
Tree Node	Comparisons not made	5	5	Where respondents explain that they have not done analysis.

vi. Coding of the control responses

Name	Memo Link	Description
Control		Comments made by the respondents when prompted to compare ease of control of employed salespeople versus contractors.

Type	Name	References	Description
Tree Node	Industry norms	36	Comments about "norms" in the respondent's industry regarding use of contractors or employees.

Type	Sources	References	Description
Tree Node	8	8	Respondents expressing some preference for conforming to industry norms.
Tree Node	21	24	Respondents claiming to be independent from industry norms.

Tree Node	Reputational capital	35	Comments about the importance of company reputation in choosing sales resource.

Type	Sources	References	Description
Tree Node	19	21	Reputation influences use of contractors
Tree Node	9	9	Reputation not considered an influence on use of

			contractors
Tree Node	27	35	Comments about whether contractors are different from employees in observance of ethical codes.

Memo Link	Sources	References
	28	35

Tree Node	28	67	Comments about how salesperson or contractor behaviour is monitored.

Tree Node	Ethics issues	35	Comments about whether contractors are different from employees in observance of ethical codes.

Type	Sources	References	Description
Tree Node	28	35	Comments about the importance of company reputation in choosing sales resource.

Memo Link	Sources	References
	27	38
	19	21
	9	9

Tree Node	Stake in the company	19	Comments about the "stakeholder" nature of the relationship of an employee with an organisation, versus

			contractors.
Tree Node	Dependency on employees	37	Comments about the risks of becoming dependent on particular employed salespeople (high performers).

Type	Sources	References	Description
Tree Node	17	17	Respondents' commenting on risks of dependency on sales employees and its impact.
Tree Node	12	14	Respondents' comments about how they avoid dependency on individual salespeople.

Tree Node	Dependency on contractors		28	33	Comments on the risks of being dependent on contractors.

Type	Name	Sources	References	Description
Tree Node	Concern about lock-in	10	12	Comments from respondents about risks of dependency on contractors
Tree Node	Third parties steer off track	11	12	Comments from respondents about third parties undermining strategy

Tree Node	Monitoring behaviour		28	67	Comments about how salesperson or contractor behaviour is monitored.
Tree Node	contract comparison		29	57	The perceptions of sales managers about the nature of

					employment contracts versus commercial contracts.

Type	Name	Sources	References	Description
Tree Node	employment law constraints	8	13	Respondents' comments about EU employment law.

Tree Node	Control of performance		24	44	Comments about how the performance of employed salespeople and contractors needs to be monitored and measured.
Tree Node	Impact of control issues		12	18	Comments about whether or not control issues have an impact on resourcing decisions.

Note : considerable cross-coding between ethics and reputation

vii. Coding of the skills responses

Name	Memo Link	Sources	References	Description
Skills		29	140	Comments made by respondents about the relative skills of employed salespeople and contractors.

Type	Name	Memo Link	Sources	References	Description
Tree Node	Comparing skills		29	98	Comments about how sales managers compare the skills of employed people and contractors or other third parties.

Type	Name	Sources	References	Description
Tree Node	Pro employee	24	36	Positive comparisons focusing on skills of employees.
Tree Node	Anti CSO	10	11	Negative comparisons - focused on failings of CSOs.
Tree Node	Pro-CSO	16	28	Positive comparisons, focused on advantages of CSOs.
Tree Node	Process of comparison	20	26	Methods used to compare employees and contractors.

Tree Node	Product knowledge		17	38	Comments about the importance of product knowledge
Tree Node	Customer knowledge		24	41	Comments about the importance of knowledge of customers.

Type	Name	Sources	References	Description
Tree Node	Importance of personal relationships	27	38	Comments about whether relationships between individual salespeople and purchasing decision makers are important.
Tree Node	Company culture	8	13	Comments about the importance of salespeople understanding company culture.
Tree Node	Training commitment	29	52	Comments about how much time is invested in training, including comparisons between employee and contractor training.
Tree Node	Selling teams	25	35	Comments about the role of other funtions in selling and the importance of teamwork.

Type	Name	Sources	References	Description
Tree Node	Team-based	19	19	Respondents reporting team-based selling.
Tree Node	Selling skills	17	30	Comments about the importance of employees' or contractors' selling skills.
Tree Node	Impact of skills	19	44	Comments about the impact of skills requirements on sales resourcing decisions.
Tree Node	The way we sell	28	35	Comments about whether selling is part of the company's differentiation.

Type	Name	Sources	References	Description
Tree Node	Differentiated selling	23	29	Respondents who indicate that the way they sellis part of their differentiation.

Type	Name	Memo Link	Sources	References
Tree Node	Service or needs-based		11	11
Tree Node	consultative or advice		9	9
Tree Node	channel		3	3

Tree Node	Importance of personal relationships		27	38	Comments about whether relationships between individual salespeople and purchasing decision makers are important.
Tree Node	Non-selling activities		29	30	Degree to which salespeople get involved in problem-solving, support, etc.

Type	Name	Sources	References	Description
Tree Node	Considerable non-selling activity	11	11	Comments from respondents whose salespeople do a lot of non-selling tasks.
Tree Node	Few non-selling tasks	14	15	Comments from respondents whose salespeople do a few/some non-selling tasks.
Tree Node	Focused on selling	4	4	Comments from respondents whose salespeople do no or minimal non-selling tasks.

Tree Node	Market or territory knowledge		13	25	Comments about the salesperson's or contractor's knowledge of a market segment or territory.

viii. Coding of the flexibility responses

Name	Memo Link	Sources	References	Description
Flexibility		29	83	Comments made by respondents when prompted to discuss the advantages or otherwise of flexibility in resourcing options.

Type	Name	Memo Link	Sources	References	Description
Tree Node	Importance of choices		29	86	Comments about the value of choices in sales reosurcing.

Type	Name	Sources	References	Description
Tree Node	Specific comments re choice	19	27	The comments that pinpoint the importance of choice.

Tree Node	Employees accelerate change		21	59	Comments about employees accleerating change or contractors decelerating change

Type	Name	Sources	References	Description
Tree Node	Specific comments re employee flexibility	12	20	These comments give examples of employees' flexibility
Tree Node	Inhibitors to change re employing staff	13	19	Comments that focus on where the employment options means slow change.

Tree Node	Contractors accelerate change		26	125	Comments in favour of contractors

					accelerating change (or employees decelerating change)

Type	Name	Sources	References	Description
Tree Node	Specific comments re contractors as agents of change	14	32	Comments which give examples.

ix. Coding of prioritisation

Name	Sources	References	Description
Prioritisation	27	27	Comments made by respondents when asked to prioritise criteria for making resourcing decisions.

Type	Name	Sources	References	Description
Tree Node	Skills	16	17	Comments about the rating of skills in prioritising drivers of resourcing decisions.
Tree Node	Costs	6	6	Comments about the rating of cost in prioritising drivers of resourcing decisions.
Tree Node	Flexibility	5	5	Comments about the rating of flexibility in prioritising drivers of resourcing decisions.
Tree Node	Control	2	2	Comments about the rating of control in prioritising drivers of resourcing decisions.

x. Re-coding : Moderators

Name	Memo Link	Sources	References	Description
Moderators		0	0	The secondary factors appearing to moderate propensity to outsource.

Type	Name	Memo Link	Sources	References	Description
Tree Node	Recruitment market		28	58	Comments about the availability for salespeople for recruitment to permanent positions.

Type	Name	Sources	References	Description
Tree Node	Recruitment easy	12	13	Respondents express good availability of candidates
Tree Node	Market imperfections	16	20	Respondents experiencing difficulties in recruiting to permanent positions.
Tree Node	Recruitment effort	11	19	Respondents comments on the effort of recruitment to permanent positions.
Tree Node	Availability of contractors	28	57	Comments about the availbility of services from contractors, and the perceived quality of them.

Tree Node	Comparison of management skills		29	213	Comments about the different skill sets involved in managing eemployed salespeople versus managing contractors (and contract sales organisations).

Type	Name	Sources	References	Description
Tree Node	Employees - Skills needed for managing	26	67	Respondents' comments about what skills they need to manage employed salespeople.
Tree Node	Contractors - Skills needed for managing	23	79	Specific comments about the skills needed for managing contractors.

xi. Attributes

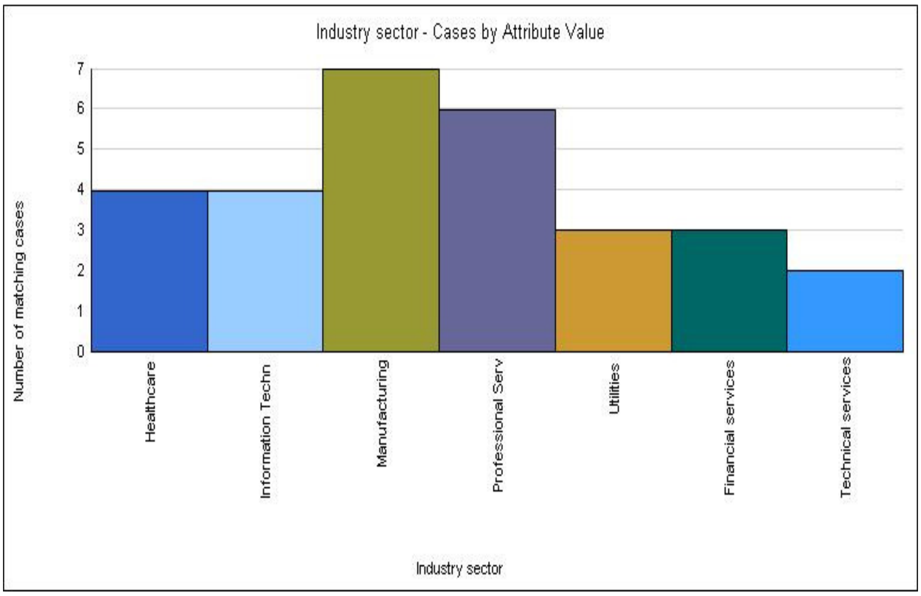
Type	Name	Type	Created On	Created By	Modified On
Attribute	% sales os	String	22/09/2011 11:16	BR	11/05/2012 14:46
Attribute	%os 3 types	String	08/04/2012 09:34	BR	08/04/2012 09:38
Attribute	Company value proposition	String	22/09/2011 09:34	BR	01/12/2011 15:04
Attribute	Control perceptions	String	02/11/2011 07:58	BR	04/11/2011 16:10
Attribute	Cost perceptions	String	02/11/2011 07:57	BR	08/11/2011 08:52
Attribute	Customer portfolio type	String	22/09/2011 11:06	BR	01/12/2011 15:05
Attribute	Degree of autonomy over sales resourcing	String	22/09/2011 11:32	BR	07/10/2011 08:04
Attribute	Flexibility perceptions	String	02/11/2011 07:59	BR	02/11/2011 08:02
Attribute	Industry sector	String	21/09/2011 14:05	E	24/12/2011 15:20
Attribute	Intensity of competition	String	22/09/2011 11:02	BR	22/09/2011 11:03
Attribute	Least important in sales resourcing	String	22/09/2011 11:20	BR	07/10/2011 07:49
Attribute	Market conditions	String	22/09/2011 11:12	BR	07/10/2011 08:26
Attribute	Market position	String	22/09/2011 09:23	BR	24/12/2011 15:39
Attribute	Outsourcing model	String	08/04/2012 09:43	BR	08/04/2012 09:49
Attribute	Pattern of use of contractors	String	22/09/2011 11:36	BR	24/12/2011 15:44
Attribute	Perceptions of success with contractors	String	22/09/2011 11:35	BR	07/10/2011 08:30
Attribute	Performance - control of sales overheads	String	22/09/2011 11:22	BR	07/10/2011 07:43
Attribute	Performance - customer advocacy	String	22/09/2011 11:26	BR	07/10/2011 07:43
Attribute	Performance - customer retention	String	22/09/2011 11:24	BR	07/10/2011 07:43
Attribute	Performance - product launches	String	22/09/2011 11:23	BR	07/10/2011 07:43
Attribute	Performance - responding to change	String	22/09/2011 11:30	BR	07/10/2011 07:44
Attribute	Performance - revenue growth	String	22/09/2011 11:21	BR	07/10/2011 07:44

Attribute	Performance - sales productivity	String	22/09/2011 11:10	BR	01/12/2011 15:06
Attribute	Performance - salesperson retention	String	22/09/2011 11:26	BR	07/10/2011 07:44
Attribute	Performance - share of wallet	String	22/09/2011 11:25	BR	07/10/2011 07:44
Attribute	Performance - utilising third parties	String	22/09/2011 11:31	BR	07/10/2011 07:45
Attribute	Performance - winning new business	String	22/09/2011 11:29	BR	07/10/2011 07:45
Attribute	Priority in sales resourcing	String	22/09/2011 11:19	BR	07/10/2011 07:50
Attribute	Skill most missed (employees)	String	13/02/2012 14:47	BR	13/02/2012 14:49
Attribute	Skills most missed (contractors)	String	13/02/2012 14:49	BR	13/02/2012 14:51
Attribute	Skills perceptions	String	02/11/2011 07:59	BR	15/11/2011 11:08
Attribute	Years experience in sales management	String	22/09/2011 11:14	BR	07/10/2011 07:45

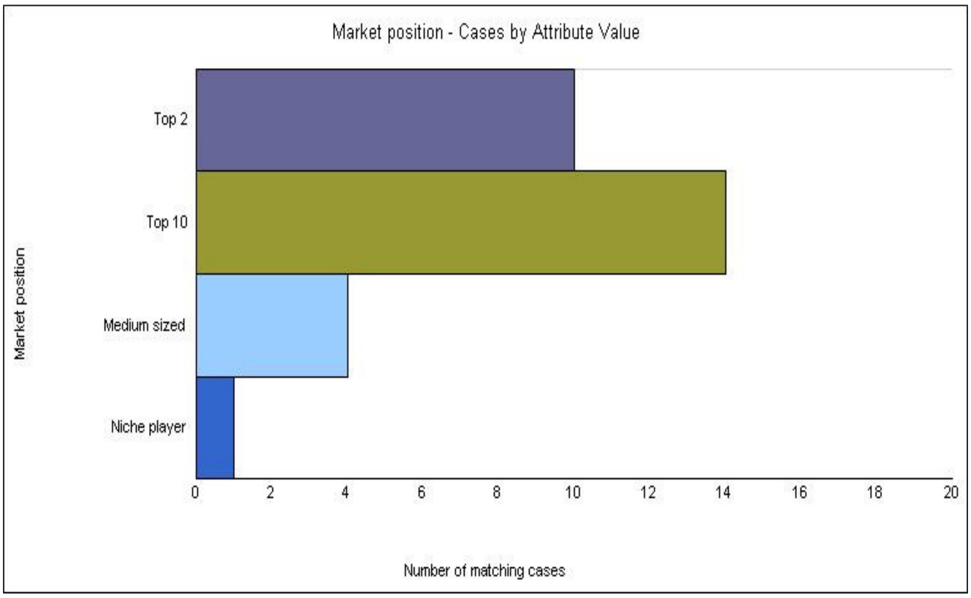
APPENDIX K

Case attributes from Nvivo

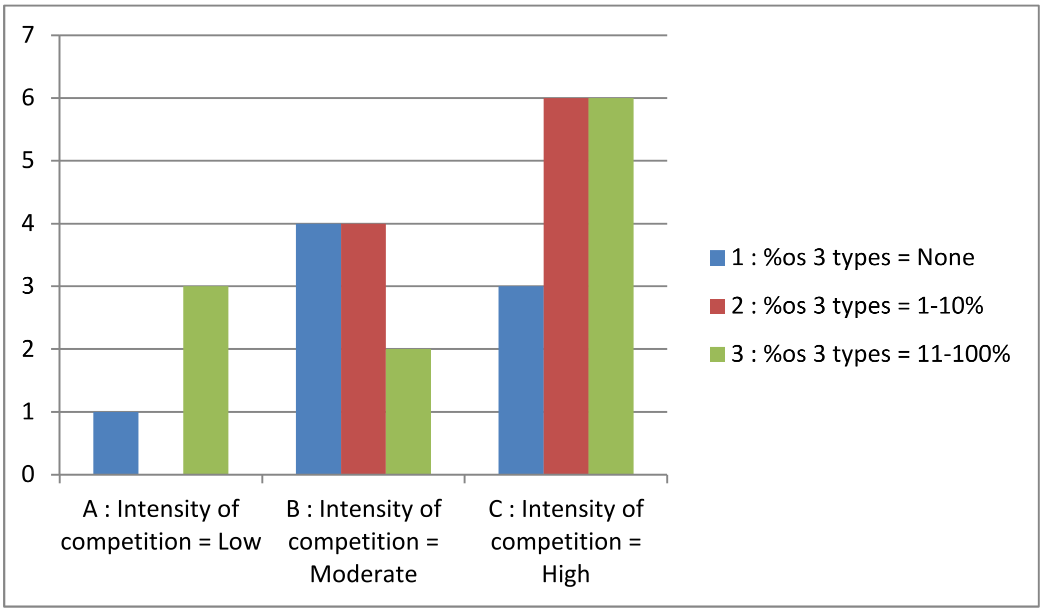
Industry sector of respondents' employers



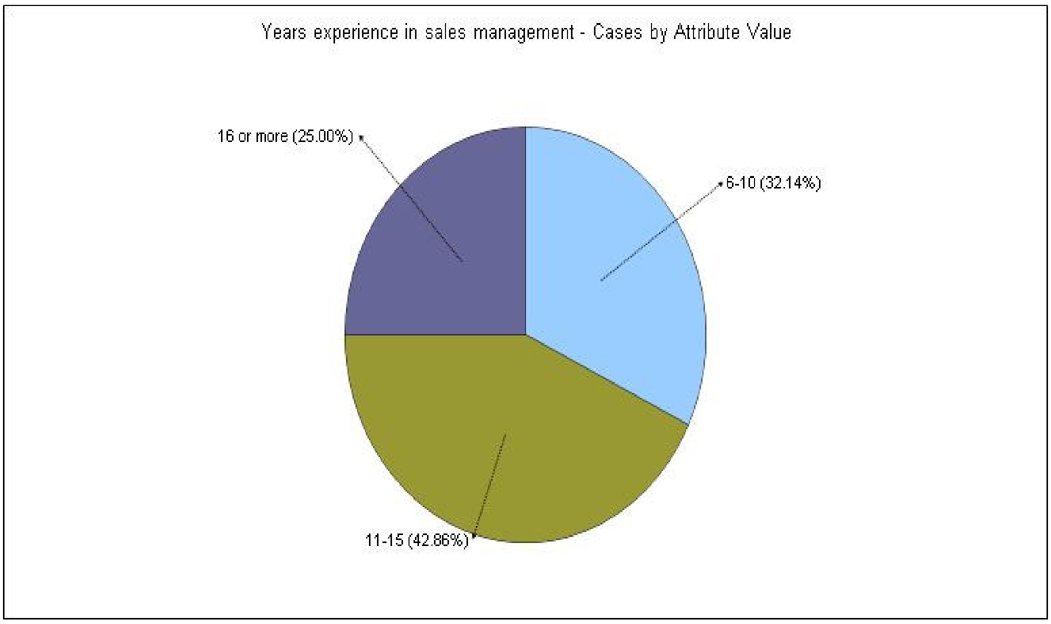
Market position of respondents' employers



Competitive environment by propensity to outsource

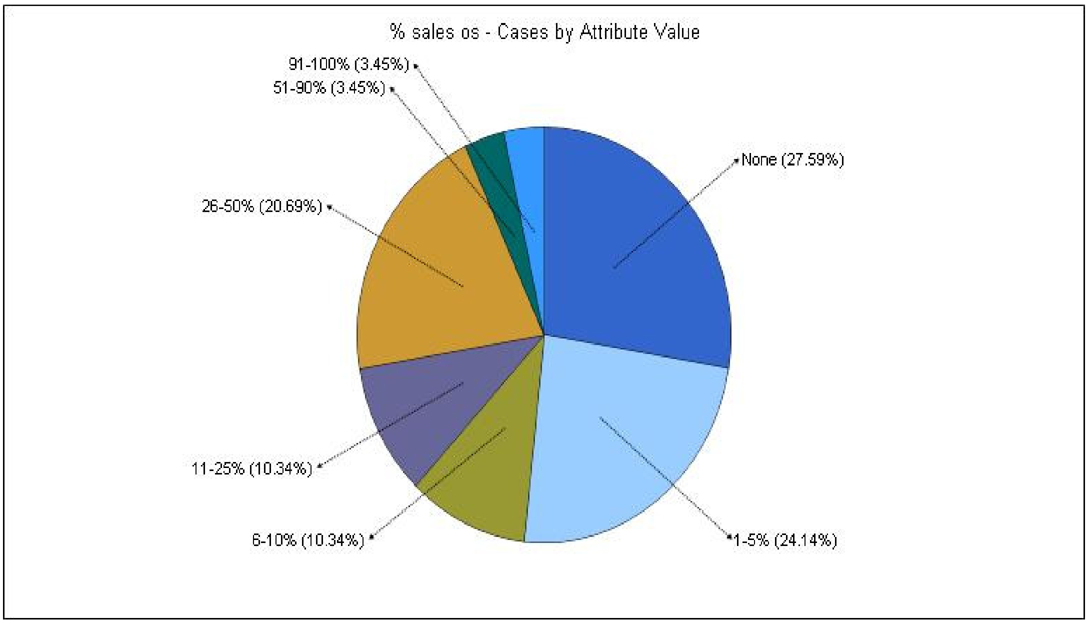


Respondents' experience

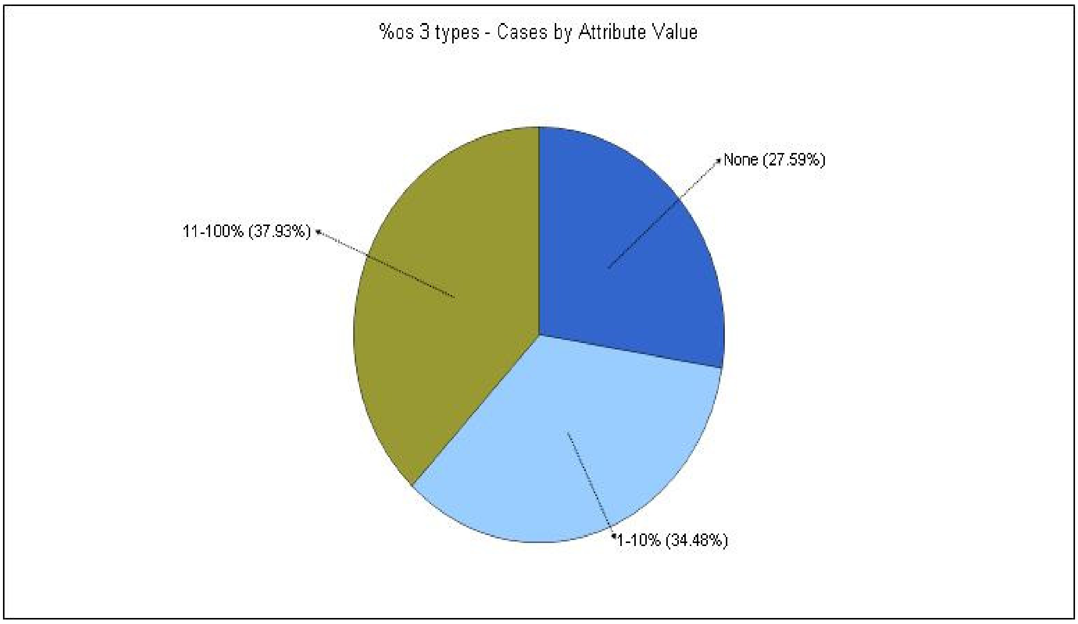


Propensity to outsource

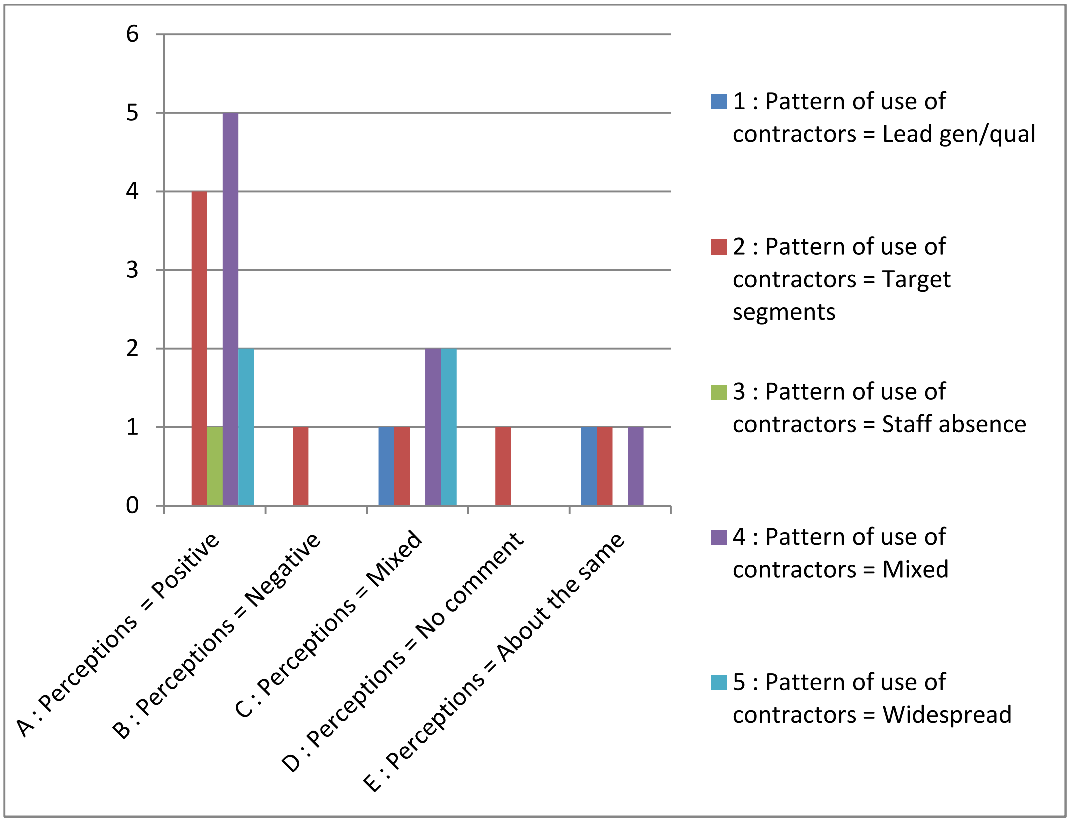
Detail



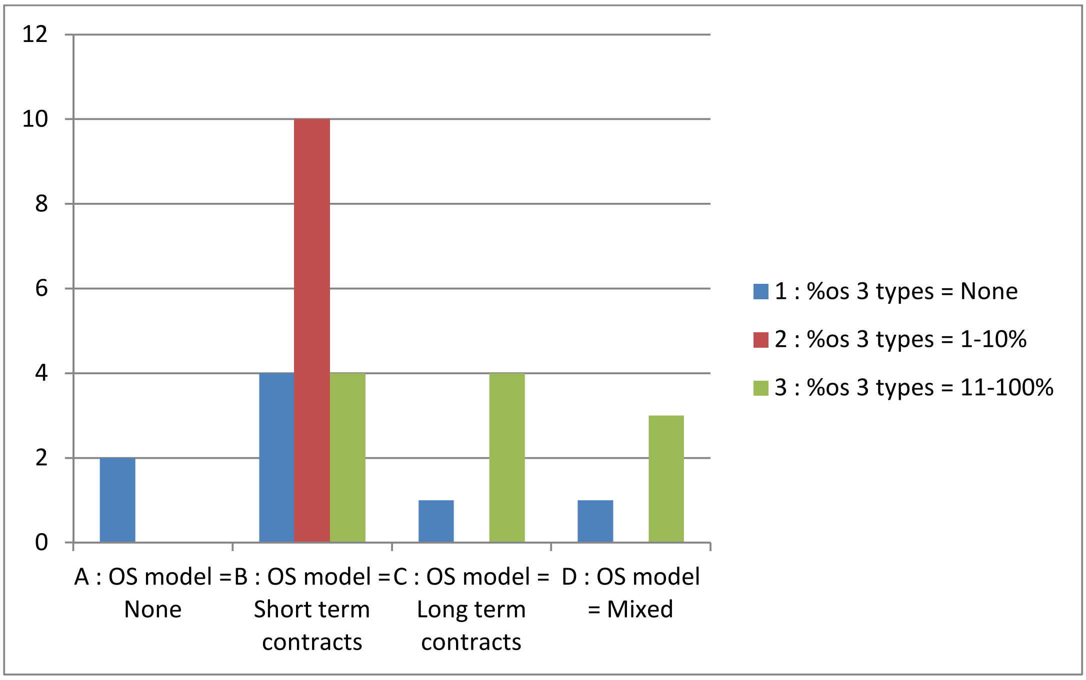
3 broad types



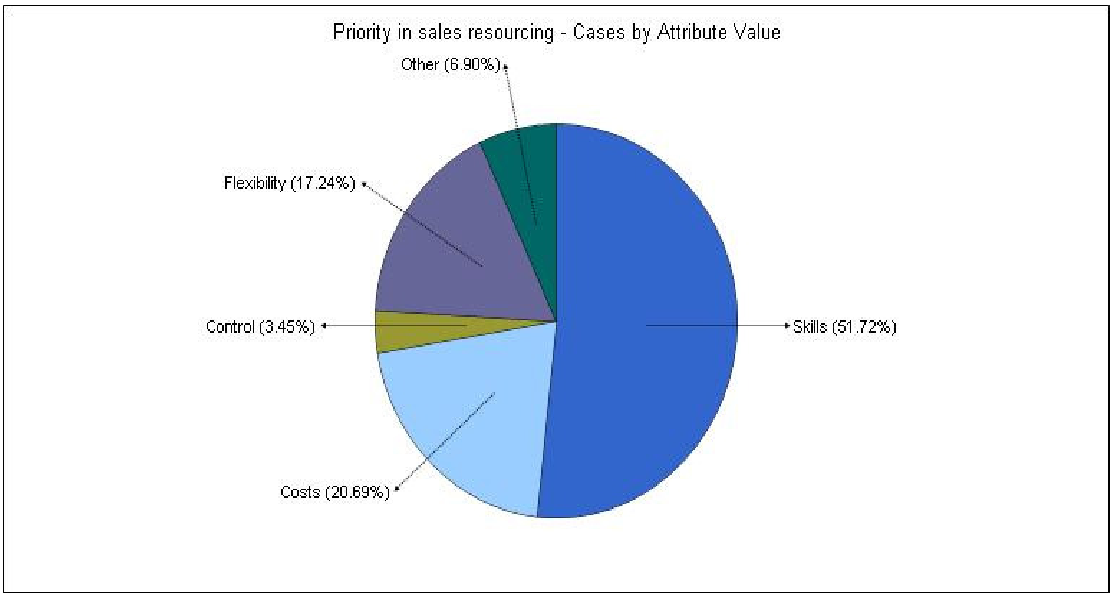
Pattern of use of contractors and perceptions of contractors



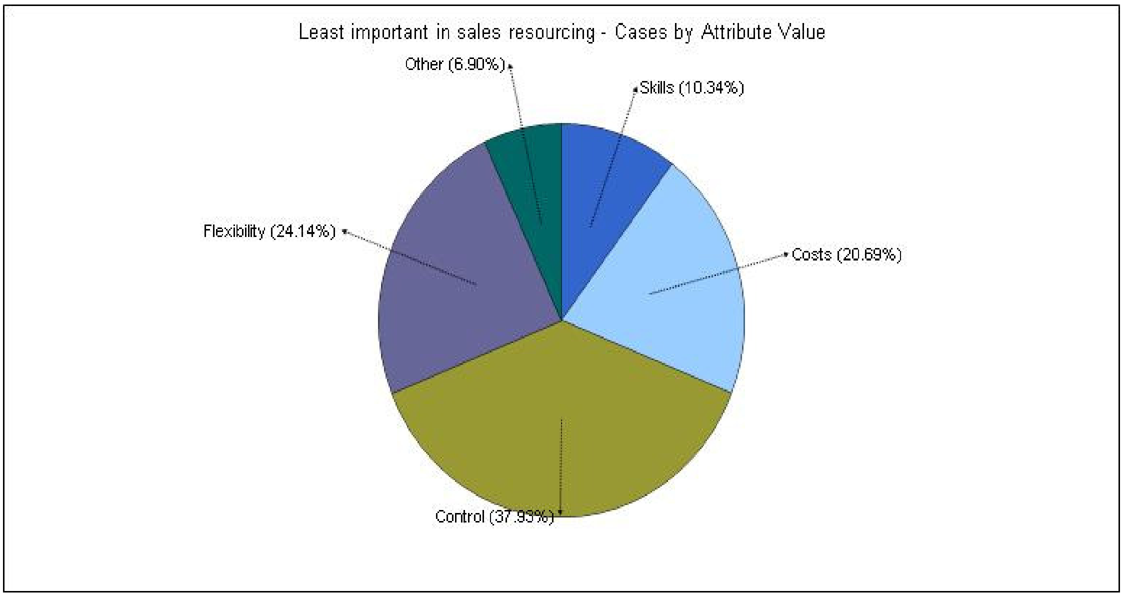
Pattern of outsourcing by propensity to outsource



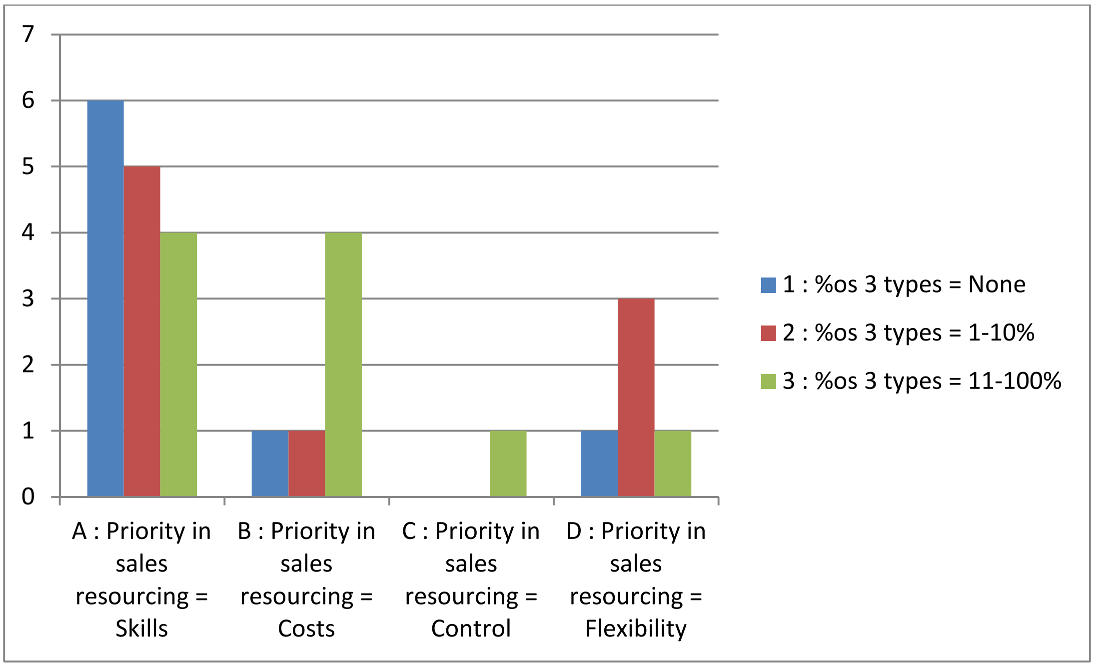
Respondents' priorities in resourcing



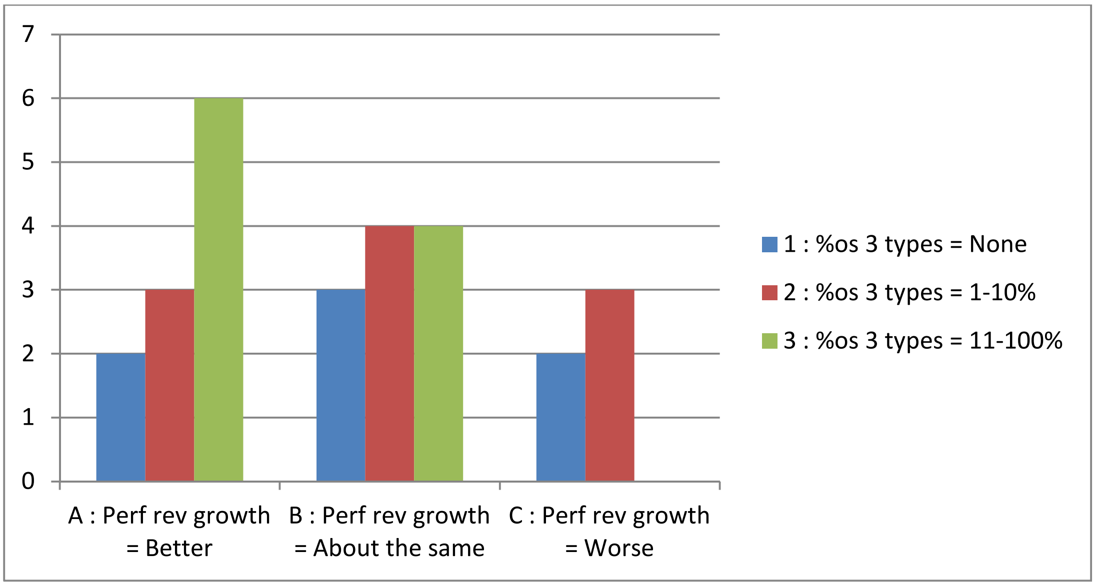
Respondents' least important factor in resourcing



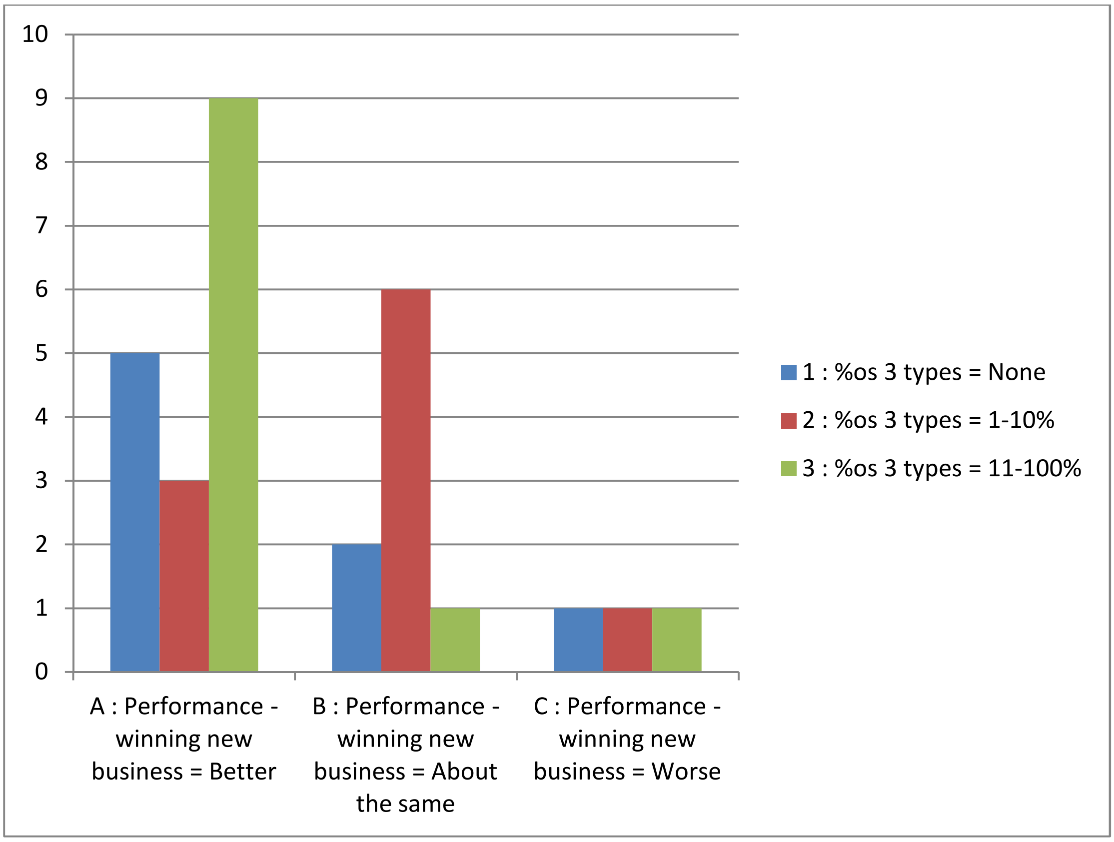
Priority in sales resourcing by propensity to outsource



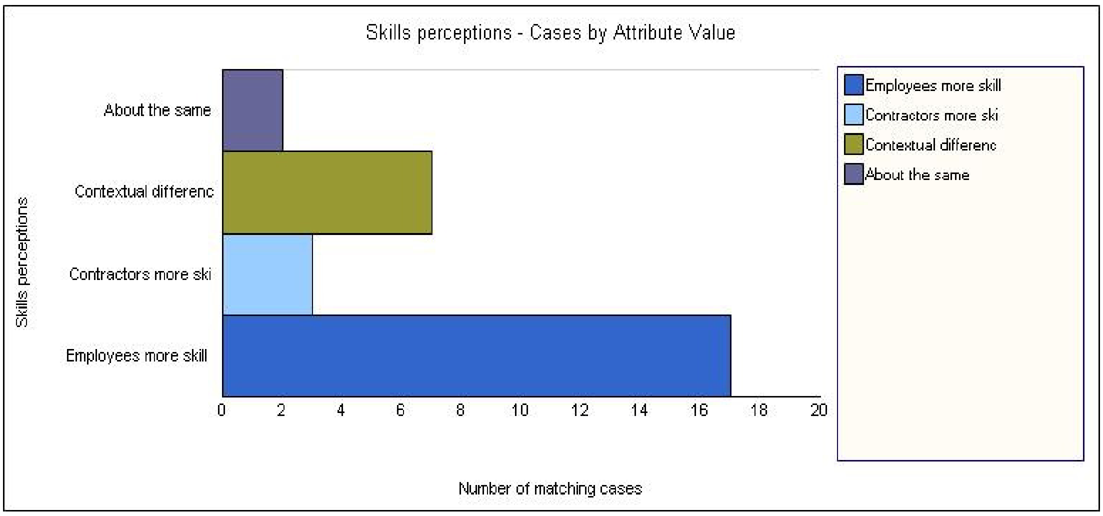
Revenue growth performance by propensity to outsource



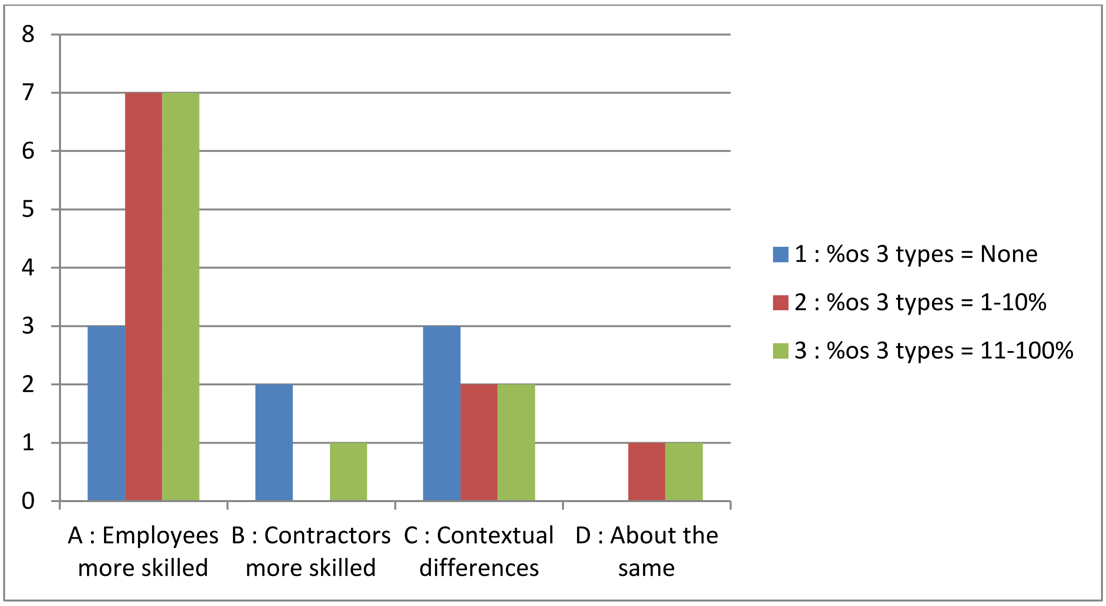
Winning new business performance by propensity to outsource



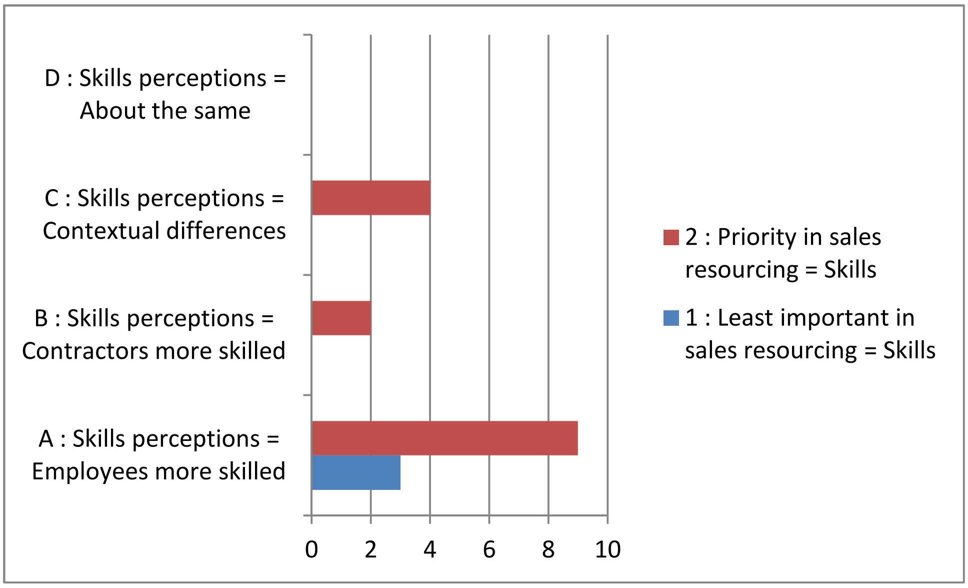
Perceptions of skills



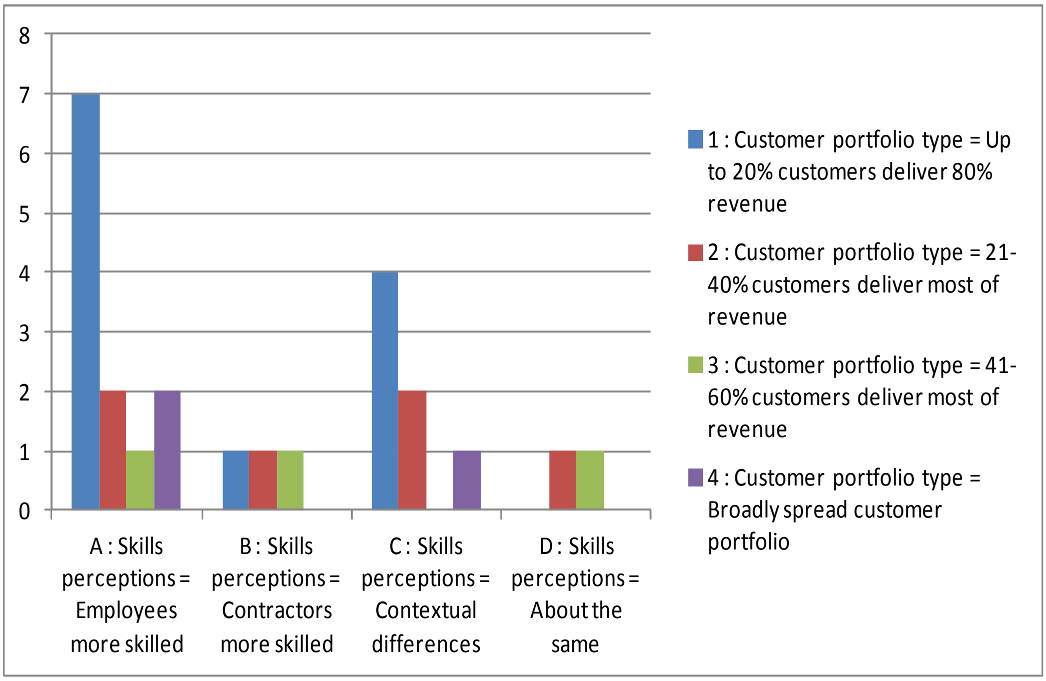
Perceptions of skills by propensity to outsource



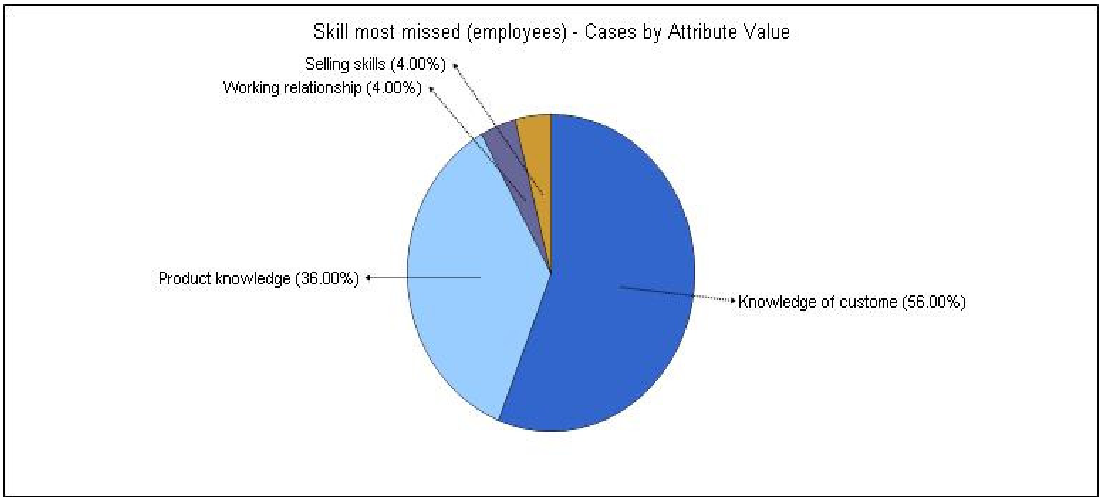
Perceptions of skills by skills priority ranking

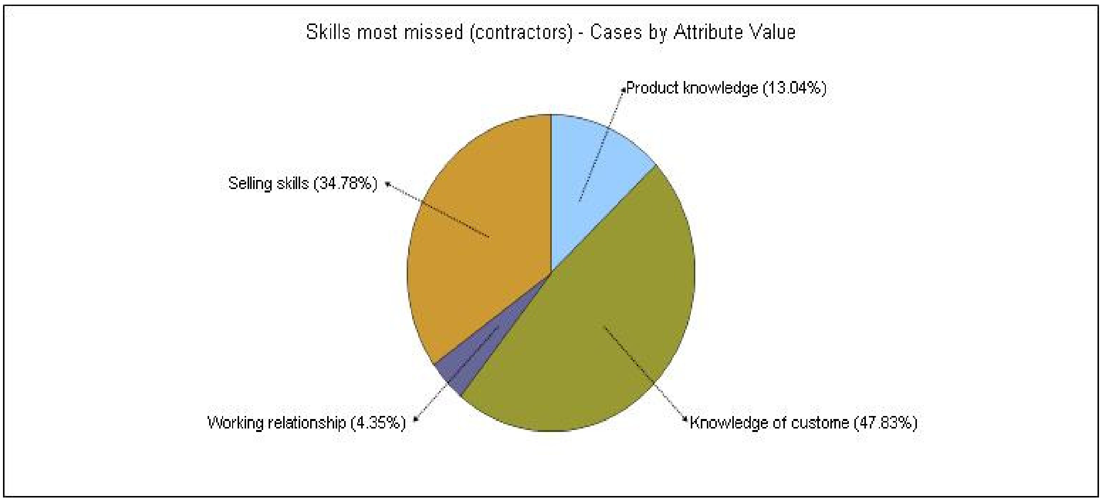


Skills perceptions by portfolio type

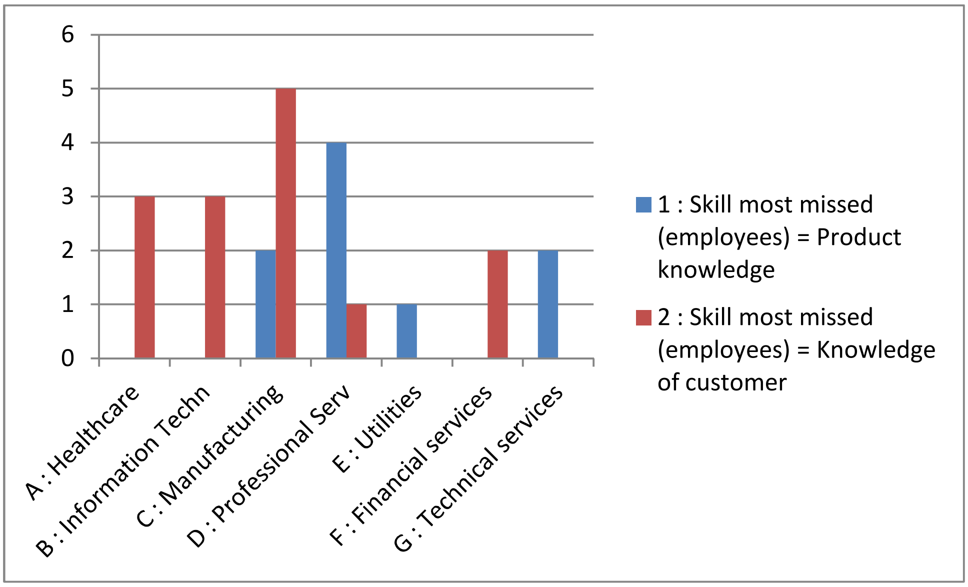


Skills most missed

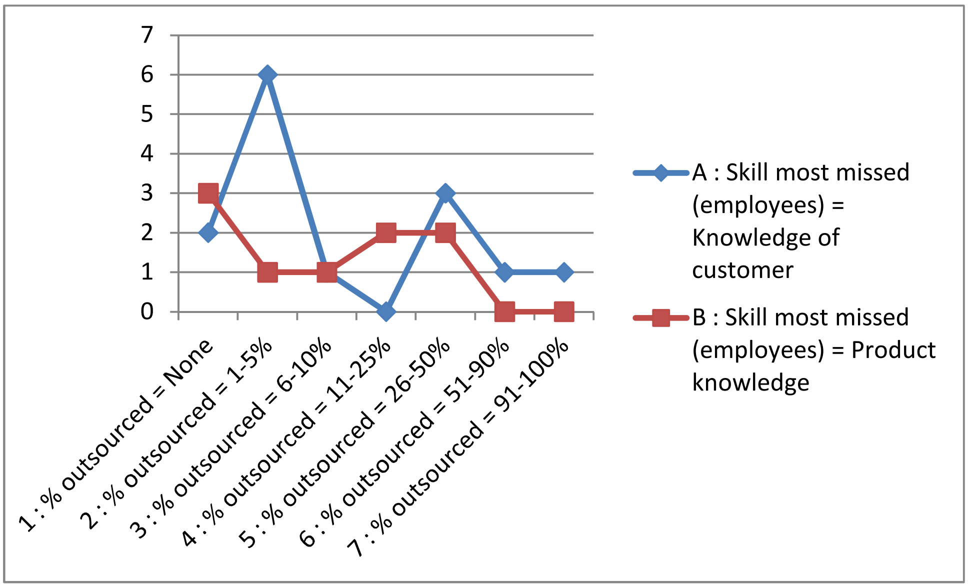




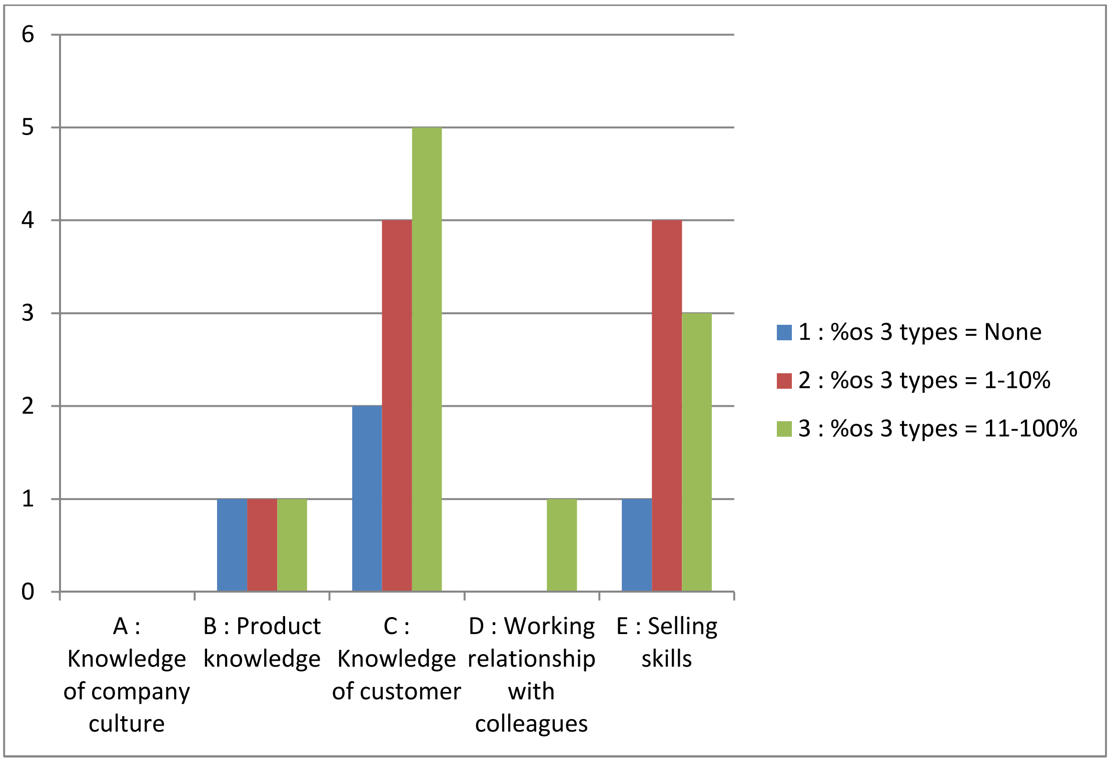
Skills most missed by industry sector



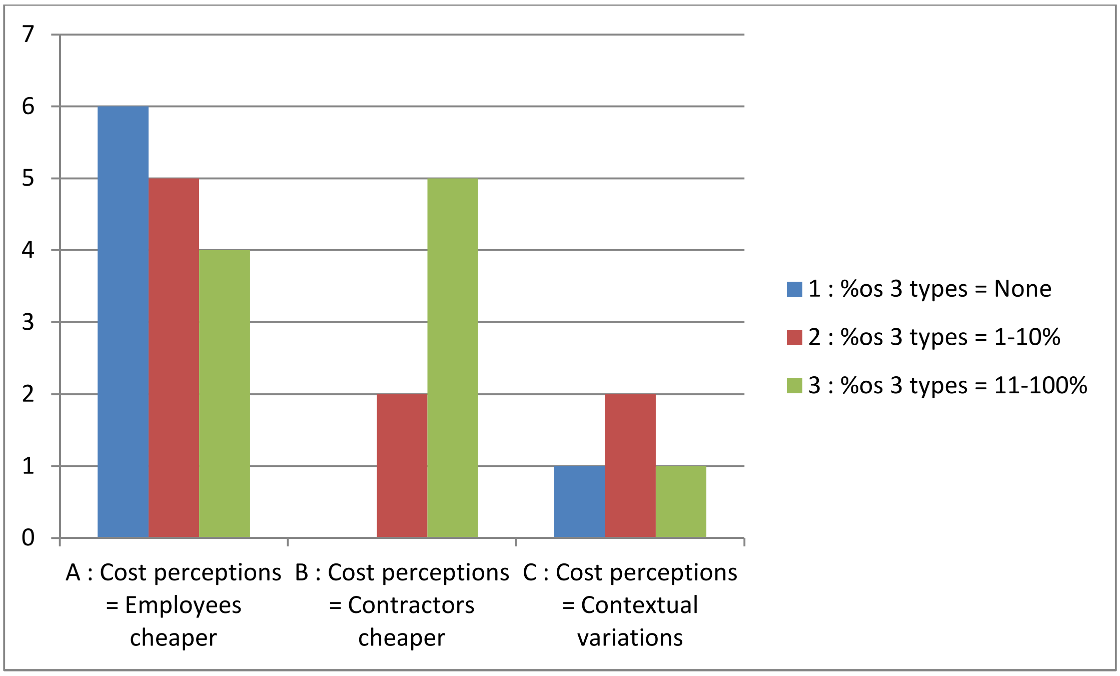
Skills most missed by propensity to outsource



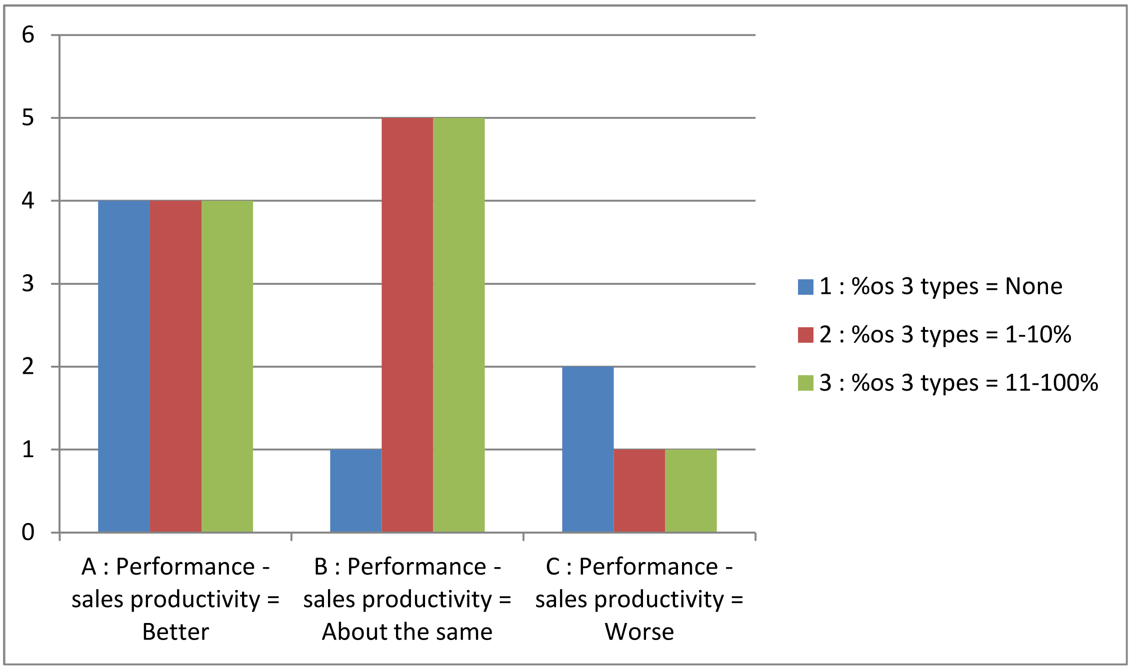
Type of skills most valued by propensity to outsource



Perceptions of cost by propensity to outsource



Sales productivity performance by propensity to outsource



Control of overheads performance by propensity to outsource